Secretary of State

State of Oregon

OREGON UNIVERSITY SYSTEM

OREGON STATE UNIVERSITY
Review of Selected Operations

Audits Division

-

Secretary of State

State of Oregon

OREGON UNIVERSITY SYSTEM

OREGON STATE UNIVERSITY
Review of Selected Operations

Audits Division

No. 2000-40 December 1, 2000

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

AUDITS DIVISION
John Lattimer
Director

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

Auditing for a Better Oregon

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

Joseph W. Cox, Chancellor
Oregon University System
Susan Campbell Hall, UO
P.O. Box 3175
Eugene, Oregon 97403-0175

Paul G. Risser, President
Oregon State University
646 Kerr Administration Building
Corvallis, Oregon 97331

This report contains the results of our audit of selected operations at Oregon State University (OSU). We evaluated OSU's management oversight of state credit cards, equipment, payroll overpayments, surplus property disposal, transportation services, and contracts and transactions with the Oregon State University Foundation.

Under Oregon's 1995 Higher Education Administrative Efficiency Act (Senate Bill 271), the Oregon University System (OUS) was made exempt from a number of state administrative regulations. OUS includes the State Board of Higher Education, the Chancellor's Office, and seven universities. With the goals of reducing administrative costs and improving student access to higher education, OUS was allowed to design and oversee its own administrative policies and procedures in areas such as personnel, purchasing, and contracting. OUS has required the individual universities to take responsibility for overseeing their own administrative operations. In turn, the universities have generally delegated administrative oversight responsibilities to their departments. According to staff in the Chancellor's Office, there are approximately 750 departments within OUS.

The audit report makes recommendations to assist OUS and the University in realizing the potential for savings provided by SB 271 while adequately protecting public assets.

OREGON AUDITS DIVISION

John N. Lattimer
Director

Fieldwork Completion Date:
June 2, 2000

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

TABLE OF CONTENTS

EXECUTIVE SUMMARY

Background and Purpose

The Oregon University System (OUS) includes the Oregon State Board of Higher Education, the Chancellor's Office, and seven universities. In early 1999 the Audits Division completed a general survey of OUS that identified several system-wide risks warranting further review. Work was begun at Oregon State University (University), which has greater revenues and expenditures than any other OUS university. The University reported total expenditures of $394 million during fiscal year 1997-1998. We performed our review of selected operational areas to determine the University's compliance with applicable requirements, to identify opportunities for more economical business practices, and to evaluate procedures and systems for safeguarding state assets.

Results in Brief

The University can better protect the state from monetary loss and improve compliance.

For the areas reviewed, we found that the University can better protect state assets from loss, improve compliance with applicable requirements, provide and procure some goods and services more economically, and improve accountability for its use of gift funds.

We identified needed improvements and potential savings in the following areas:

Credit Cards. In fiscal year 1998-1999 the University issued 327 credit cards that incurred charges totaling $1.9 million. To encourage proper use of state credit, the University should improve its central monitoring of credit card use, and establish and enforce clear policies and procedures. We identified $6,400 in prohibited credit card charges, and questioned $52,480 in charges that lacked adequate documentation. Approximately $150,000 was charged on 79 cards issued to departments without required user agreements. (Page 3.)

Minor Equipment. From fiscal year 1995 through 1998-1999, the University spent approximately $30 million on minor equipment (items valued under $5,000). To better protect minor equipment from loss and theft, the University should improve its tracking of high-risk items such as computers. Only two of the 13 departments reviewed kept adequate records of and tracked high-risk minor equipment. High-risk equipment was being used off-campus without proper tracking and, in some cases, the items were in the possession of former employees. (Page11.)

Payroll Overpayments. Each month, the University issues wages to approximately 8,200 employees. From January 1999 through June 1999, employees who separated from service were overpaid a total of $151,495 because their names were not removed from the payroll system in a timely manner. As of December 1999, $29,646 of the total had not been collected. To better prevent and detect payroll overpayments, the University should increase its central monitoring of employee separations, provide training to departmental managers and staff, and take better advantage of automated error detection tools. In addition, the University could improve the timeliness of its collection procedures once an overpayment is identified. (Page 15.)

Surplus Property. In fiscal year 1998-1999, the University sold $442,856 of surplus property. We found that once property was received in surplus property's warehouse, the program's procedures were generally effective in controlling the inventory and sale of the property. We also found the program could better comply with state requirements by notifying more Oregon public agencies and not-for-profit organizations of the availability of University surplus property, and allow adequate time for review before the property is offered for sale to the general public. The University also should take steps to eliminate the appearance of conflicts of interest in its surplus property program, including canceling its auctioning contract with the program manager and prohibiting employees who work with surplus property from purchasing surplus items. (Page 19.)

Transportation Services. With an annual operating budget of approximately $2 million, the University operates a fleet of approximately 380 vehicles, comprised mostly of sedans, pickups and vans. The fleet is underutilized during the winter months. As many as 26 passenger vehicles are not driven enough to meet state usage requirements. To operate its vehicle fleet more economically and improve customer service, the University should consider reducing the number of passenger vehicles in the fleet, purchasing vehicles at volume discounts available through state price agreements, establishing a rate structure based on actual operating costs, and implementing procedures to better account for fuel sales. (Page 27.)

Relationship with Foundation. Of the $18.7 million of support that the OSU Foundation provided to the University during fiscal year 1997-1998, $3.6 million (19.2 percent) was not recorded on the University's accounting system. We recommend that the University begin recognizing and recording all transactions with the Foundation. The University also should establish accountability objectives and guidelines for using unrestricted gift funds. We questioned transactions totaling $269,000 in which University employees spent unrestricted gift funds for items not consistent with the uses and objectives described in University and Foundation literature provided to prospective donors. (Page 41.)

Agency Response

Management of OUS and OSU agreed with many of the conclusions and recommendations in this report.

Oregon State University's full response can be found starting on page 65.

Background and Introduction

The Oregon University System (OUS), formerly called the Oregon State System of Higher Education, is a state agency that includes seven universities. OUS is governed by the 11-member Oregon State Board of Higher Education. A Chancellor serves as OUS's chief executive and administrative officer.

The universities are Eastern Oregon University, Oregon Institute of Technology, Oregon State University, Portland State University, Southern Oregon University, the University of Oregon, and Western Oregon University.

State-assisted higher education has existed in Oregon since 1868. In 1870 the first individuals fulfilled the requirements for baccalaureate degrees at Corvallis College, the predecessor of Oregon State University (University).

The 1995 Higher Education Administrative Efficiency Act resulted in less central oversight of operations at each university.

In July 1995 the governor signed into law the Higher Education Administrative Efficiency Act (SB 271) which made OUS independent from many state administrative regulations. Responsibility for purchasing, contracting, personnel, and labor relations was transferred from the Department of Administrative Services (DAS) to the State Board of Higher Education and the Chancellor's Office. The changes were made with the goals of increasing administrative efficiency and flexibility, reducing university operating costs, and improving access to higher education. OUS management delegated its authority for these operational areas to the individual universities. The universities then delegated some or most administrative oversight responsibilities to their individual departments. According to OUS management, the seven universities have a total of approximately 750 different departments.

Audit risks associated with the delegated authority are to be identified and mitigated through post audit reviews performed by OUS's Internal Audit Division. A part of the Chancellor's Office, the Internal Audit Division conducts audits at each university and reports the results to the Chancellor and the Oregon State Board of Higher Education.

In early 1999, the Audits Division completed a general survey of OUS audit needs. The survey identified several system-wide areas of audit risk that warranted further audit work. Included for detailed audit work were some areas that the Internal Audit Division had identified as needing improvement.

We chose to begin audit work at Oregon State University (University) which has greater revenues and expenditures than any other OUS university. The University reported total expenditures of $394 million during fiscal year 1997-1998.

Chapter 1: Credit Cards

The University's procurement card program provides credit cards to its departments for making purchases for authorized purposes. Compared to traditional public-sector purchasing procedures, credit cards provide an efficient means to procure goods and services. Without adequate oversight, however, providing employees with immediate access to the state's credit increases the risk of unauthorized, inappropriate, or unallowed purchases.

Background

The University's Business Affairs Office (Business Affairs) oversees the procurement card program. It is responsible for approving or denying departments' requests for cards, obtaining the cards from the bank and issuing them, and informing departments of credit card rules and policies. Business Affairs is also responsible for reviewing the departments' monthly billing statements, including supporting documentation, and paying the monthly amounts due.

The University issued 327 credit cards that, during 1999, incurred charges totaling $1.9 million.

Credit cards are issued to departmental custodians who are responsible for controlling the cards to ensure appropriate use, maintaining supporting documentation, and reconciling charges to the monthly statements. All charges must comply with OUS and University purchasing requirements. During fiscal year 1998-1999 the University had issued 327 credit cards, with charges totaling $1.9 million.

Oversight of the Procurement Card Program

The University made payment on some prohibited credit card charges. This could have been avoided if University employees had been given clearer guidance in the use of the cards, and if the University had centrally reviewed the transactions before making payment.

Central Review of Charges

The University should establish an effective process for centrally reviewing departments' use of credit cards. Most departments were not providing Business Affairs with documentation of their charges. At the same time, Business Affairs usually did not review the charges.

Credit card charges must be authorized, appropriate, and necessary for University operations. To provide assurance that these requirements are met, card transactions must be reviewed by an independent party using documentation provided by card users.

For our audit period, University departments were required to submit to Business Services a Monthly Statement Packet for each card in their custody. A packet should have included the credit card statement from the bank, a log of purchases made with the card, and supporting documentation for the month's transactions, such as receipts and invoices. Before sending in the packets, the departments were to reconcile their accounts using the supporting documentation.

Transaction records for less than one-fifth of the credit cards in use were submitted for central review. Prohibited charges were made, many of which were paid without central review.

We obtained all Monthly Statement Packets for October 1999 that were submitted to Business Affairs. Charges were made on 224 cards that month and the University paid for all charges. However, packets for only 36 cards (16.1 percent) had been submitted as of December 9, 1999. Of the 36 packets, five lacked adequate supporting documentation.

Our sampling of credit card transactions for fiscal year 1998-1999 identified payments made on 127 prohibited charges totaling $6,408. These were mostly charges for airfare, car rentals, and gasoline, all specified by University policy as being unallowable.

In one case, personal items totaling $886.73 were purchased on a state credit card from a televised home-shopping network. Three monthly statements, each without supporting documentation, showed that 49 transactions with the network were billed to the card. Business Affairs paid the charges without contacting the department regarding the transactions. Business Affairs did not become aware of the personal charges until the employee responsible came forward. University records indicate that a $886.73 payment was made as reimbursement.

We recommend that the University:

- Before making payment on credit card charges, review departments' transactions to ensure that they were appropriate and authorized. Follow up on questionable transactions by contacting card custodians.

Need for Clear Credit Card Policies

The University should consolidate and clarify its credit card policies. At the time of our audit, the staff was using about a dozen documents with information on allowable and unallowable expenditures. No single document contained a complete listing of credit card requirements. The University's website page containing credit card policies was out of date.

A need exists for clear and comprehensive policies outlining allowable purchases.

Our interviews with card custodians confirmed a need for clear and understood card policies. Some custodians were not aware that cards could not be used for travel expenses and that traveling with a card is unallowed. When asked to provide the policies that they were following, some custodians provided copies of an outdated policy from 1996. One new custodian stated that he was not sure about the procurement card policies, so he relied on card users to tell him about allowable and unallowable uses.

Adequate employee training and clear policies would lessen the potential for inappropriate use of procurement cards.

We recommend that the University:

- Establish clearly written policies regarding use of credit cards, including descriptions and examples of allowable and prohibited charges.

- Ensure that credit card policies are communicated to all responsible employees. Emphasize the policies in employee training, and regularly update the University's credit card website.

Departmental and User Agreements

According to University policy, before a credit card may be issued to a department, the department must submit both a signed Departmental Agreement, and a signed User Agreement. By signing the agreements the department head (approver), the card custodian, and any user(s) acknowledge that they understand their responsibilities and agree to be bound by the terms and conditions of the agreements.

One-fourth of the credit cards were issued without agreements on file.

Through August 1999, Business Affairs had issued 79 (out of a total 327) credit cards without receiving both Departmental and User agreements. Approximately $150,000 was charged on the 79 cards during fiscal year 1998-1999. Business Affairs did not have assurance that users of the 79 cards were aware of their credit card responsibilities, or that the departments had identified authorized users and designated individuals to review and reconcile the charges.

We recommend that the University:

- Ensure that all departments with credit cards complete and submit Departmental and User Agreements. Business Affairs should not issue any additional cards without signed agreements showing that employees responsible understand their duties and agree to the conditions of use.

Supporting Documentation

Approximately one-fourth of the transactions reviewed lacked adequate supporting documentation.

University departments should maintain better documentation to support their credit card purchases. We tested 891 transactions made on 17 credit cards. No documentation was kept for 144 (16 percent) of the transactions, and incomplete and unusable documentation was retained for 106 of the transactions (12 percent). These 250 transactions without adequate documentation amounted to $52,481.

According to Oregon Administrative Rules 576-008-0295, a vendor invoice must be retained for University purchases. It is also a good business practice to require a receipt for goods purchased to show that the goods were actually received and payment was made in the proper amount. However, a University policy allows order forms, which do not show evidence of receipt or final amount billed, to suffice for supporting documentation. Also, when orders are placed by phone or Internet, a University policy requires only that the order be written on the department's procurement log. This provides no assurance that the goods have been received and the correct amount has been paid.

We recommend that the University:

- Revise its policy to require vendor invoices for all credit card purchases and ensure employees are aware of documentation requirements.
- Review monthly statement packets to ensure departments are obtaining adequate supporting documentation for credit card purchases.

Separation of Duties

It is a basic accounting principle that related duties be separated so that no person is in a position to both perpetrate and conceal errors or irregularities. Different people should be assigned to authorize transactions, record transactions, and maintain custody of assets. The University's credit card practices, and some of its policies, were in conflict with this principle.

Credit card duties were not adequately separated.

According to University policy, for every credit card, each department is required to designate a custodian who is responsible for keeping the card secure, maintaining a log of purchases, retaining supporting documentation, and performing monthly reconciliations. The custodian also is required to maintain a list of authorized users. The department head appoints the custodian and approves and signs the monthly credit card packet. However, the policy does not restrict the custodian or the department head/designated approver from using the cards for which they are responsible. Nor does the policy prohibit one employee from performing the duties of both custodian and department head/designated approver.

Of the 307 credit cards with a departmental agreement on file, 92 (30 percent) of the agreements listed the same employee as the department head/approver and the custodian. In 16 of the 92 agreements, the same employee was listed as department head/approver, custodian, and user. During fiscal year 1998-1999, $295,049 was charged on the 92 cards.

We recommend that the University require that:

- Two different employees perform the duties of custodian and department head/designated approver.

- Custodians are not users of the card for which they are responsible. Exceptions may have to be made for small departments in which the custodian is responsible for the majority of the purchasing.

- Department head/designated approvers are not users of the card for which they are responsible.

Card Security

Almost half of the credit cards reviewed were not properly secured.

University departments should provide better security for state credit cards. Of 18 departmental cards we reviewed for adequate security, eight cards (including credit card numbers) were left in easily accessible, unlocked locations. These cards had spending limits ranging from $5,000 to $25,000 with a combined total spending limit of $100,000.

For example, one card was kept in a rolling file folder marked “VISA” in an office that was unlocked and unattended for several hours each day. Another card was kept in a safe, but the card number and expiration date were printed on the top of a log sheet kept on a desk in a storeroom accessed frequently by employees from several departments.

We noted that five of the eight cards were carried by employees while traveling out of state. Employees of one department regularly used a state credit card while traveling. The head of another department stated that she always carried the department's card in her purse because she traveled frequently. The card custodians in these departments were not aware that traveling with state credit cards was against University policy.

We recommend that the University:

- Clarify policies to explicitly state requirements for adequate card security, and communicate the requirements to all current custodians and approvers.

- Enforce the current policy prohibiting the use of credit card while traveling.

Infrequent Use

Approximately 30 percent of the credit cards issued were used infrequently or not at all. Of the 327 credit cards issued, 54 were not used from November 1998 through May 1999. Another 47 were used in one or two separate months, had charges for very low amounts, or both. The total spending limit on these 101 credit cards was $348,500. The risk of having this amount exposed to possible loss or misuse may outweigh the benefits the departments receive from having the cards available for their use.

We recommend that the University:

- Consider reducing limits or revoking credit cards that are used infrequently.

No Penalties for Policy Violations

No action is taken when departments repeatedly violate credit card policies.

Business Affairs imposed no penalties when departments violated credit card policies. Departments failing to submit required documentation were contacted by Business Affairs and asked to comply; however, no other steps were taken.

Business Affairs management described their position on policy violations as follows. If a prohibited charge is made on a credit card, Business Affairs may approve it retroactively if it is an approved cost of the University. If a prohibited charge is not an approved cost of the University, the department is advised to obtain reimbursement from the Oregon State University Foundation.

The Departmental Agreement for credit card usage states that any violation of University credit card policies or guidelines will be grounds for immediate surrender of the VISA card and permanent removal of departmental VISA card purchasing privileges. We found no instances in which a card had been suspended or revoked for violation of credit card policy.

We recommend that the University:

- Enforce credit card policy by revoking credit card privileges for users and departments that repeatedly violate policy.

Student Credit Cards

Student organizations were being allowed to obligate state funds.

The University had entrusted students with state credit cards. Twelve student organizations had requested and been issued credit cards. We found that 11 cards with a combined spending limit of $27,000 were being used.

Each student organization is required to have an employee advisor and a designated student financial officer. Credit cards were issued to the designated student financial officer, who was required to sign a form accepting responsibility for charges on the card. We noted that the form said the student "may" be required to reimburse the University for purchases on the card.
The student financial officer determined who used the card and how it was used. User Agreements required of University departments were not required for cards issued to student organizations. Neither were the student groups required to submit supporting documentation for their charges.

The Business Affairs office paid the charges on cards issued to student organizations when it received the monthly statements from the issuing bank. Business Affairs then obtained reimbursement by distributing the charges for each card to the appropriate student organization account.

OUS's Financial Administration Standard Operating Manual (FASOM) makes no provision for issuing state credit cards to students or student organizations. For example, the manual states, "Each card is assigned to an employee custodian."

The University is ultimately responsible for all charges incurred by the student organizations. According to the contract between OUS and an issuing bank: "Charges made on any Centrally Billed Corporate Account are to be made in OUS's name and be OUS's responsibility." The contract also states, "…you (the State of Oregon, acting by and through the State Board of Higher Education) are responsible for all charges incurred by the use of this card, regardless of the purpose of the charge."

We recommend that the University:

- Comply with FASOM and University policy and not issue state procurement cards to student organizations. Cards that are currently being used by student groups should be revoked.

Chapter 2: Minor Equipment

The University estimated that in 1995 it owned more than $60 million of minor equipment items (those items valued at less than $5,000). From fiscal year 1995-1996 through 1998-1999, the University spent another $30.3 million on minor equipment, including $10.6 million for computer related items.

High-risk equipment is prone to theft because it is adaptable to personal use and easily portable.

Certain high-risk minor equipment items, such as laptop computers and communication devices, are prone to theft because they are adaptable to personal use and easily portable. These items should be recorded in an inventory and their use controlled. Only two of the 13 departments we reviewed were adequately tracking and controlling high-risk minor equipment items.

Background

The University's Property Management department administers equipment policies and manages the University's equipment inventory system, with guidance from the OUS Chancellor's Office. OUS sets standards for record keeping and coordinates the gathering of inventory information used for insurance reporting. Property Management maintains asset records, coordinates and reviews physical inventories, and assists University faculty and staff with inventory controls. The departments are responsible for ensuring that property is inventoried, secured, and maintained and disposed of in accordance with University, OUS, state, and federal requirements.

Property Management coordinates the University's biennial inventory of all capitalized equipment; these are equipment items valued at $5,000 or more that are not consumed during the normal course of business, and that have a useful life that exceeds one year. The major equipment inventory completed in June 1998 recorded 9,880 items with a book value of $179.3 million.

The University requires its departments to conduct a physical inventory of minor equipment (items valued less than $5,000) and consumable supplies every five years. Each year, an estimated value for these items is updated for insurance purposes using an inflation factor derived from the Consumer Price Index. The estimated value of minor equipment and consumable supplies for fiscal year 1998 was approximately $64.5 million.

Monitoring of High-Risk Minor Equipment

Only two of 13 departments were adequately tracking minor equipment.

Two of the 13 departments reviewed were adequately tracking minor equipment. The 11 departments without adequate tracking had spent a total of $9.4 million on minor equipment between fiscal year 1995-1996 and 1998-1999, including $3.2 million for computers. Staff members in some of the 11 departments said that they were not aware that University departments were responsible for monitoring minor equipment. During our review we noted that three of the 11 departments had started compiling an inventory of their minor equipment.

The University and the state's Department of Administrative Services's Risk Management Division provided little incentive for departments to maintain adequate control of their equipment. For example, departments with lost equipment were allowed to file claims and obtain reimbursement without proof of ownership, such as a sales receipt or inventory record.

State rules recommend that inventory items with a high risk of loss, such as computers and electronic equipment, be identified, recorded, and controlled. The University's procedures for maintaining and conducting an inventory of minor equipment did not require departments to record serial numbers or other identifying characters. There were no special requirements for monitoring the use of high-risk items.

We obtained policies from six other universities and found that some had special requirements for controlling high-risk minor equipment. Washington State University, for example, requires high-risk items with a unit cost under $5,000 to be inventoried and made subject to monitoring controls.

We recommend that the University:

- Develop policies and procedures for monitoring and controlling high-risk minor equipment items. The policies and procedures should:

  - Clearly identify the types of minor equipment items considered to be at an increased risk of loss;

- ♦ List procedures for departments and users to follow in securing high-risk minor equipment items, such as cabling and locking computers, and properly storing items not in use;

- ♦ Require departments to maintain up-to-date property assignment logs for all high-risk minor equipment items entrusted to employees and students; and

- ♦ Require departments to record on a permanent inventory all high-risk minor equipment items, including acquisitions of new and used items. The inventory should show an item's serial number, procurement date, and procurement price. The inventory should also show the date when the item is declared surplus, and the date the item is transferred to the University's Surplus Property unit for disposal.

- Periodically review the completeness of departments' inventory of high-risk equipment items by comparing procurement records with inventory records.

- Revise risk management procedures to require proof of ownership before processing loss claims.

Monitoring of Equipment Used Off Campus

Equipment was used off campus without proper authorization.

University employees were using state-owned equipment off campus without proper authorization and without accepting financial responsibility for the equipment.

University policy requires that equipment loaned to faculty or staff be recorded and approved on an Intra-Department Loan Agreement. The agreement stipulates that the employee is required to use the equipment only for University business. By signing the agreement, a borrower assumes financial responsibility for all risks not covered by the State Insurance Fund. The borrower also agrees to return equipment upon request or at the end of the loan period.

The University recommends that departments submit copies of loan agreements to the Property Management Section of the University's Business Services Office; however, the Property Management Section does not review agreements involving minor equipment. Some departments do not submit copies of their agreements. If a department does not keep loan agreements on file, and does not maintain an adequate inventory of minor equipment, a loss of minor equipment used off campus could easily go undetected.

Of the 13 departments reviewed, eight allowed equipment to be used off campus. Of these, three departments were not maintaining loan agreements. An employee at one of these departments stated that employees there who need to use equipment offsite take equipment with them at their own discretion; there are no check-out procedures. This same department had made 673 computer-based equipment expenditures totaling more than $400,000 during fiscal year 1995-1996 through 1998-1999.

Four employees were allowed to keep equipment on loan after separating from the University.

Additionally, during our review, we noted one department that had allowed four employees to retain equipment on loan after separating from the University. One of these separated employees was residing out of the country, but was still allowed to renew her loan agreement. In another instance, an employee signed the agreement in June 1996 to expire in June 2001. The employee separated from the University in April 1997; as of September 1999, the separated employee had not yet returned the equipment.

Finally, we noted that the loan agreements for the use of equipment off campus are in effect for up to five years. The borrower agrees to return the equipment upon request, or by the return date on the agreement, whichever is sooner. However, an employee is allowed to renew the agreement and is not required to bring in the equipment before the agreement is renewed. There was no limit to the number of times an employee may renew an agreement. Consequently, if an employee lost an equipment item, he or she could continue to renew the loan agreement without the University being made aware of the loss.

We recommend that the University:

- Communicate policies regarding use of equipment off-campus to all departments. Department managers should allow no equipment to be taken off-campus without a completed loan agreement.

- Ensure that employees responsible for monitoring the off-campus use of equipment are made aware of the policies.

- Attempt to recover University equipment that is in the possession of former employees.

- Require employees renewing loan agreements to bring in the borrowed equipment to show that it is still in their possession.

Chapter 3: Payroll

Background

The University issues wages to approximately 8,200 employees each month. The primary purpose of the University Payroll Office is the timely and accurate processing of employees' pay. The University uses Banner software for processing its payroll. Banner software consists of three major components: a student information system, a financial information system, and a human resource information system (HRIS). OSU implemented the first two Banner components in 1995 and the HRIS component on January 1, 1999. The HRIS module is necessary for payroll and human resources administration.

The University's Office of Human Resources (Human Resources) is responsible for setting up and removing employees from HRIS. The Payroll Office is responsible for processing pay, issuing payments, and handling overpayments. University departments are responsible for entering employee pay information into the HRIS system and notifying Human Resources and the Payroll Office when an employee separates from the University.

Controlling the Payroll Process

The University relies on its departments to notify the Payroll Office when an adjustment needs to be made to an employee’s pay. If an employee is receiving default pay (i.e. monthly salary or a set monthly rate), payments will continue until his or her department provides notice that a change needs to be made.

The University should establish university-wide separation procedures.

If an employee separates from the University and a department does not provide notice, the Payroll Office will not know that the employee has separated and default payments will continue. We found that the University had not implemented a university-wide employee separations checklist that would assist departments in taking necessary steps, such as discontinuing pay, when an employee separates from service. This problem had been previously identified by OUS's Internal Audit Division.

According to the University's Payroll Manager, several HRIS automated test programs exist to help detect overpayments. For example, one test identifies an exception if the work hours entered exceed the hours available in the month. Another test finds net pay amounts that exceed gross pay amounts. During the implementation of HRIS in early 1999, the Payroll Office was not running many of the test programs on a regular basis. According to the Payroll Manager, all test programs are currently run on a monthly basis.

The Payroll Office had identified 134 overpayments, totaling $146,695, that occurred between January 1 and June 30, 1999. Thirty-one of these overpayments (23.1 percent) were to separated employees. In most cases, an overpayment resulted because a department did not notify Human Resources and the Payroll Office in a timely manner. In six instances, employees continued to receive pay for more than one month after separating from the University. Other overpayments were due to data entry errors involving rates, hours, and workload percentages.

Some overpayments to separated employees had gone undetected.

We reviewed data from the HRIS for the period January 1 through June 1999, noting employees whose pay fluctuated significantly between months, possibly signaling overpayments. Many employees' pay fluctuated due to their nine-month work schedule. We noted 25 instances in which the reasons for pay fluctuations were not readily apparent. Of these, Payroll Office staff confirmed that nine were overpayments, totaling $4,800, that had gone undetected.

We also found that two employees received standby pay hours well in excess of their regular working hours. For example, during one month, an employee was paid $3,716 for 173 regular work hours plus $2,115 for 592 standby hours. The Payroll Office referred these questioned payments to the Human Resources for follow up.

Some universities have established procedures to prevent overpayments to separated employees. For example, Columbia University requires its departments to contact the payroll office by telephone as soon as it is known that an employee will separate. Failure to contact the office by telephone results in a charge to the department for any overpayment that occurs.

We recommend that the University:

- Establish an employee separations checklist requiring departments to notify Human Resources and the Payroll Office immediately when they become aware an employee will be separating from the University.
- Ensure that HRIS audit reports are run and reviewed on a regular basis to detect possible overpayments.

Collecting Overpayments in a Timely Manner

The State's policy is to collect all receivables due and establish procedures to ensure timely collection of all amounts owed. State guidelines note that accounts over 90 days past due have a serious risk of becoming uncollectible.

More than half of overpayments were not collected for 90 days or more.

Between January 1 and June 30, 1999, the Payroll Office recorded 134 overpayments, totaling $146,695. Of this amount, $27,211 (18.6 percent) was collected within 90 days of the overpayment. Another $89,838 (61.2 percent) was collected 90 days or more after the overpayment. As of December 16, 1999, $29,646 (20.2 percent) was still outstanding.

University departments are responsible for informing the Payroll Office when an overpayment occurs by completing and sending in an overpayment notice. Upon receiving the notice, Payroll Office staff members are required to calculate the value of the overpayment, and notify the employee by letter of the overpayment and the amount due.

For 55 of the 143 recorded overpayments, the Payroll Office did not send out the first collection letter until more than eight weeks after it had received an overpayment notice. Although HRIS was implemented in January 1999, the Payroll Office continued to be slow in sending out collection letters as late as June 1999.

We recommend that the University:

- Improve its processing of overpayments, including prompt letter notification to employees that have received overpayments.

Chapter 4: Surplus Property

Background

The University's Surplus Property Program (Surplus Property) manages excess and obsolete property received from University departments and some local governments. Surplus Property's mission is to redistribute as much surplus property as possible to University departments, Oregon public agencies, and to qualified not-for-profit organizations. Only after state surplus property has been offered to these entities can it be offered for sale to the general public.

During fiscal year 1998-1999, Surplus Property had sales totaling $442,356. Of this amount, $72,350 (16.3 percent) was sold to public agencies and not-for-profit organizations.

Surplus Property is a University service center with an annual operating budget of $200,000. According to University policies, service centers must be self-supporting. Most of Surplus Property's revenue is generated through service fees. Surplus Property charges University departments and other government entities a percentage of the sales value of the property sold. Surplus Property is a division of the Property Management Section of the University's Business Services Office.

We determined that once a University department had designated an item as surplus property, had contacted Surplus Property to handle the disposal process, and the property was received in Surplus Property's warehouse, the program's procedures were generally effective in controlling the inventory and sale of the property. However, we identified some exceptions and areas for improvement.

Separating Property-Related Management Duties

It is a basic accounting principle that effective control of an organization's financial activities depends on adequate separation of related business functions. The University's organization and staffing of its Property Management Section is in conflict with this principle. The manager of the Property Management Section is responsible for directing and controlling the related functions of purchasing, inventory control, and surplus property disposal. A person in this position can make decisions for each related area without supervisory review. Decisions contrary to University goals and policies could be made without higher management's knowledge.

We recommend that the University:

- Consider changing the organizational structure or staffing of the Property Management Section so that different individuals direct and control the related functions of purchasing, inventory control, and surplus property disposal.

Eliminating the Appearance of Conflicts of Interest

Conflicts of interest, real or perceived, can adversely affect the public's opinion of a public agency. We identified three areas in which the public could question the impartiality of the University's redistribution and sale of surplus property.

Auctioning Contract

In fiscal year 1998-1999, of the $442,856 of surplus items sold, $262,940 (59 percent) was sold at public auctions. The University has a contract with a private auctioning business to run the University's public surplus property auctions. The owner of the business is the manager of the Property Management Section. The manager was hired under a contract that was let without competitive bidding. Although the manager's compensation under the contract is not substantial, this contracting arrangement gives the appearance of a conflict of interest.

Contract payments to the manager totaled $3,670 from March 1998 through December 1999. This was for 22 auctions, an average of $167 per auction.

Employee Purchases

Surplus Property employees have been allowed to purchase surplus property items from the University. This practice was restricted somewhat by a June 1999 policy prohibiting employees from purchasing surplus property items at sales where they work.

Surplus Property records showed that from July 1998 through December 1999, 11 Surplus Property employees purchased 31 surplus items totaling $2,200 through the University's public auctions and other sales. For 12 of the 31 items, an employee was working at the sale where he or she purchased the item. One of the 12 purchases, totaling $45, occurred five months after Surplus Property issued its policy.

Allowing Surplus Property employees to purchase surplus items may give the appearance of a conflict of interest or favoritism. Even if employees are not working at a sale where they make a purchase, they can be perceived as having an advantage over the general public by having knowledge of, or access to, the property prior to the sale.

DAS, the state's largest manager of surplus property, enacted an administrative rule prohibiting its employees from purchasing surplus property. DAS extended the prohibition to include relatives of employees and persons acting on behalf of employees.

Contact Bid Procedures

If a potential buyer for a particular surplus item has been identified, Surplus Property may contact the person directly to inform him or her of the availability of the property and the particulars of the bid process. The property is advertised to the general public and at the close of the bid period Surplus Property awards the sale to the highest bidder. Bids received from persons contacted in this manner are called contact bids. In fiscal year 1998-1999, Surplus Property sold $30,582 of items through contact bids.

Contact bids can be arranged so that a surplus item receives minimal public exposure, thereby providing those contacted with an advantage over other potential buyers.

In June 1998, Surplus Property used a contact bid to sell more than $8,000 of developmental learning laboratory equipment to another university. The buyer for the other university was a former University faculty member who had been involved in the University's original purchase of the equipment. According to Surplus Property records, in May 1998 the professor was contacted and she expressed an interest in obtaining the equipment. On June 12, 1998, the property was designated as surplus. No other direct contacts were documented. The property was first advertised at approximately 5:30 p.m. on Wednesday, June 17, 1998, with bid closing at 6:30 p.m. on the same day.

We recommend that the University:

- Cancel its auctioning contract with the manager of Property Management Section to eliminate the appearance of a conflict of interest.
- Establish a policy prohibiting Surplus Property employees, their relatives, and persons acting on their behalf, from purchasing surplus property items.
- Establish procedures for contact bid sales to ensure that all property sold in this manner is advertised to the public for a predetermined time period to ensure adequate market exposure.

Supporting Documentation

Surplus Property maintains generally complete and accurate records; however, we found that improved documentation was needed in the following areas.

<u>Retaining Supporting Documentation for All Sales</u>

Bid history information was not retained for three of five sampled purchases. Bid history information is needed to show that property is sold to the highest bidder in compliance with established procedures.

Surplus Property staff members reported that they do not record sales in the surplus property database when surplus items are exchanged directly from a University department to a buyer. Sales are recorded only if the surplus property has been received into the Surplus Property warehouse. Since Surplus Property's database provides the University's official record of surplus property transactions, complete information on all sales of University surplus property should be recorded there.

<u>Maintaining Records of Voided Bills of Sale</u>

Surplus Property uses bills of sale produced by its surplus property database as a record of the sale and the receipt of payment. Each bill of sale has a unique number sequentially generated by the database system. Bill-of-sale numbers provide a control to help ensure that sales are recorded. We reviewed a sequential listing of approximately 6,800 bills of sale generated during an 18-month audit period and found that 165 sales numbers were missing.

We attempted to review documentation for seven missing bill-of-sale numbers to determine reasons for their absence. We were told that staff will void and delete a bill of sale number in the event of a data entry error, or whenever a customer decides not to purchase an item. Copies of voided bills of sale had been retained for four of the seven items, and each of these voids appeared appropriate. Documentation for the other three voided sales had not been retained. Without a record of all voided bills of sale, management cannot assure that it has an accurate and complete record of sales and revenues.

Numbering Items in Lots

Surplus Property sometimes receives from University departments duplicates of items, such as laboratory glassware and lighting fixtures. Such items may be sold individually or grouped into lots. We reviewed property disposition records for 46 lots. Although the departments had sometimes indicated lot sizes, none of the property disposition records showed the number of items in the lots. Likewise, Surplus Property's inventory database did not show the number of items in the 46 lots. Without an accurate record of lot sizes, Surplus Property cannot ensure that items sold in lots account for all of the duplicate items received.

We recommend that the University:

- Maintain documentation to support all sales, including on-line transactions and exchanges directly from a University department to a buyer.

- Maintain a record of all bills of sale.

- Ensure that all items designated as surplus property, including their location prior to sale, are recorded in the inventory database.

- Account for all items received, sold, and redistributed. Record the number of items included in lots received. Record the number of items included in lots sold or redistributed.

Requirement to Offer Surplus Property to Public Agencies and Not-For-Profit Organizations

Surplus Property is required by ORS 279.828 and 279.830 to offer surplus property first to all public agencies in Oregon (including University departments), and then to qualified not-for-profit organizations. Only after doing this can Surplus Property offer items for sale to the general public.

Surplus Property could provide better opportunities for public agencies and not-for-profit organizations to reduce their purchasing costs by obtaining surplus University property. Our audit identified the following areas for improvement:

Maintaining a Complete List of Eligible External Entities

Surplus Property maintained a mailing list of approximately 400 Oregon public agencies and not-for-profit organizations. DAS, the state's largest handler of surplus property, identified approximately 1,900 Oregon public agencies and not-for-profit organizations that must receive notice. After completing our fieldwork, University management reported that Surplus Property had obtained an electronic copy of DAS's list of agencies and organizations, and that DAS's complete list would be used.

Notifying External Entities

Surplus Property's written procedure is to notify public agencies and not-for-profit organizations after it receives surplus items in its warehouse. Surplus Property could not provide documentation, however, that it had notified all 400 organizations on its list of surplus items received during an 18-month period.

Allowing Adequate Time for Response

Surplus Property had not established a review and response period for public agencies and not-for-profit organizations receiving notice of surplus items. In many instances, Surplus Property did not allow for a reasonable time to respond to notifications before the property was sold.

We reviewed 16,300 surplus property sales transactions over an 18-month period and found that 10,700 (66 percent) of the items were sold at public sales. For 600 of the 10,700 sales

(5.6 percent) the items were sold within three days of receipt. In 1,900 instances (18 percent), the items were sold within seven days of receipt.

We recommend that the University:

- Notify all Oregon public agencies and qualified not-for-profit organizations of the availability of surplus University property.

- Establish a review and response period that will provide public agencies and not-for-profit organizations a reasonable amount of time to respond to notifications before surplus property is offered for sale to the general public.

Chapter 5: Transportation Services

Background

Transportation Services provides vehicles to the University community to carry out University business. With an annual operating budget of approximately $2 million, Transportation Services has a fleet of approximately 380 vehicles comprised mostly of sedans, pickups, and vans. During our audit, the fleet included approximately 81 passenger cars, 136 pickups, 50 large passenger vans, 20 cargo vans, 38 mini-vans, 16 sport utility vehicles, and nine service vehicles. Also owned were 29 heavy-duty trucks. Located on the Corvallis campus, Transportation Services maintains a full service shop and a fueling station. University departments and related organizations are billed for their use of Transportation Services's vehicles.

We contacted the offices of 15 of the University's 16 deans and asked for opinions about services received from Transportation Services. Of the eight deans who used Transportation Services's vehicles, six reported that they were satisfied or very satisfied with the service provided.

Utilization of Fleet Vehicles

About half of the University's recorded mileage is driven in private vehicles.

Although some users of Transportation Services's vehicles reported that they were satisfied with the services, many in the University community prefer to use their own vehicles. Approximately half of the University's recorded vehicle miles are driven in private vehicles. For University-related business, employees and students have the option of using vehicles from Transportation Services's fleet, renting vehicles from private companies, using vehicles from the Department of Administrative Services's (DAS) fleet, or using their own vehicles and obtaining reimbursement for mileage.

Transportation Services reported to DAS’s Risk Management Division that in fiscal year 1998-1999 University mileage totaled 7.1 million miles. This total did not include miles driven in vehicles rented or leased from private companies; the University does not centrally capture that information. Of the 7.1 million miles:

- 3.3 million miles (46.4 percent) were driven in individuals' private vehicles.

- 3.2 million miles (44.9 percent) were driven in Transportation Services's vehicles. This includes mileage for all vehicles, including those used in facility maintenance, farm and forestry research, etc., that are often used for short trips or have limited annual mileage, or both.

- 0.4 million miles (6.3 percent) were driven in other University-owned vehicles.

- 0.2 million miles (2.5 percent) were driven in vehicles rented from DAS.

Consider Reducing the Number of Passenger Vehicles

Transportation Services's fleet appears to be sized and structured more to accommodate peak period demands for vehicles rather than average demands. Some vehicles in the fleet receive little use during part of the year. Because of a seasonal pattern of use, as many as 26 passenger vehicles do not meet the state's usage requirements.

In its report to DAS's Risk Management Division, the University's use of all Transportation Services vehicles was shown to be highly seasonal, with peak mileage occurring in July and August. Management reported that during these months, research work conducted outdoors (e.g. agriculture, forestry) is at a peak. Fleet mileage during July and August 1998 was 364,000 and 374,000 miles, respectively. Assuming that each vehicle in the fleet would be used a minimum of 775 miles[1] per month, the overall fleet was operating above the minimum expected mileage by 23.7 percent and 27.1 percent, respectively.

[1] In January 2000, DAS established the minimum mileage standard for state vehicle use at 775 miles per month effective for the six-month period ending September 30, 1999.

Fleet vehicle usage is seasonal with highest use during summer, and lowest use during winter.

Vehicle use is lowest in December, January, and February. During 1998 fleet mileage during those months was 126,000, 155,000 and 172,000 miles, respectively. Assuming that each vehicle would be used a minimum of 775 miles per month, the overall fleet was operating below the expected minimum mileage by 57.1 percent, 47.4 percent and 41.7 percent, respectively.

ORS 283.312 provides that a state agency or institution may not own or be assigned a standard passenger vehicle that is driven a number of miles per month (averaged over a six-month period) that is less than a "mileage limit" defined for that agency. The law does not specify which six-month period or periods may be used in the calculations.

We reviewed the mileage for 76 of Transportation Services's sedans and station wagons for the fiscal year ending June 30, 1999. We averaged vehicle mileage for seven six-month periods that began within the fiscal year. The number of sedans and station wagons driven fewer than 775 miles per month varied from 11 (14.5 percent) in the period July through December 1998 to 26 (34.2 percent) in the period November 1998 through April 1999.

Oregon Revised Statute 283.312 allows exemptions to the mileage limit for state vehicles, but the exemptions must be approved in writing by the Director of DAS. An application for an exemption must explain why ownership or assignment of a state-owned standard passenger vehicle is necessary for the activities conducted by the state agency. The statement must also give reasons why using rental vehicles, or borrowing vehicles from another state agency, would not provide a satisfactory alternative to ownership. We were told that Transportation Services had not requested an exemption.

We recommend that the University:

- Use the results of this audit to identify underused passenger vehicles in its fleet and either surplus them or develop and implement a strategy to increase their use.

- As an alternative to ownership, determine whether renting passenger vehicles from DAS or private companies would cost-effectively satisfy peak-period demands.

- Improve information on University mileage by requiring all departments to report to Transportation Services mileage driven in vehicles rented or leased from private companies.

Considering Total Costs of Ownership Before Buying Used Vehicles

Transportation Services may be able to lower its long-term operating costs by offering newer vehicles. Most of the vehicles that Transportation Services has added to its fleet have been used. Between July 1, 1998, and June 30, 1999, Transportation Services purchased 17 vehicles at a total cost of $234,000. These included 12 used vehicles, including a cargo van and a Chevrolet Suburban from the 1991 model year. Both of the 1991 models were purchased with over 62,000 miles on the odometer. Management was buying vehicles from Corvallis auto dealers.

We were told that Transportation Services purchased used vehicles because it could not afford new vehicles. Management reported that used vehicles allowed user needs to be met at a better price than new vehicles. Managers of one department indicated that, because their vehicles were subject to frequent loading and unloading of equipment and supplies, they preferred used vehicles as replacements to avoid wearing down new vehicles.

We found that Transportation Services could have afforded new vehicles if it had taken advantage of the volume discounts available through DAS's price agreements. We compared the prices that Transportation Services paid for seven used models to the prices for similar new models available through DAS's price agreements. For five of the vehicles that Transportation Services purchased at a total cost of approximately $80,000, mileage ranged from 22,000 to 39,000 miles. These included a 1996 sedan, two 1996 pickups, a 1997 pickup, and a 1998 sports utility vehicle. By spending an extra $11,500, or an average of $2,300 per vehicle, Transportation Services could have purchased five similar new vehicles through DAS's price agreements.

For two of the seven vehicles reviewed, Transportation Services paid more for the used vehicles than it would have paid for similar new vehicles. In one case, Transportation Services paid $1,600 more for 1996 pickup with 43,000 miles than it would have if it had purchased a similar new model through a DAS price agreement.

Compared to new vehicles, purchasing used vehicles for fleet service may result in higher long-term operating costs and other disadvantages. For example:

- Maintenance and repair costs may be higher on used vehicles due to age, mileage, limited availability of replacement parts and equipment, and poor driving habits and maintenance practices by previous owners.
- Manufacturers' warranties may have expired, or it may be difficult to enforce warranty work, leaving Transportation Services with the full costs of repairs.
- Used vehicles may be sold without a warranty, whereas DAS's price agreements allow for the return of defective new vehicles.
- Under the state's risk management program, new vehicles are insured for their replacement value, but used vehicles qualify only for depreciated value.

Transportation Services had not performed cost studies to support its decision to purchase used vehicles. Such analysis is needed to estimate total costs incurred over a vehicle's lifecycle. For example, using cost analysis, our 1995 audit of DAS's vehicle fleet management practices reported that DAS could have saved nearly $750,000 over a two-year period had it acted sooner to replace its sedans and station wagons with new vehicles.[2]

We recommend that the University:

- Base vehicle purchasing decisions on life-cycle cost analysis. Compare the costs of buying and operating used vehicles against the same costs for similar new vehicles purchased through state price agreements.

[2] "A Review of Vehicle Fleet Management Practices," December 27, 1995, Report #95-49.

Establishing Rates Based on Actual Costs

Transportation Services is a University service center and under the University's policies it is to be self-supporting. Revenue is attained through user fees. During fiscal years 1997-1998 and 1998-1999, Transportation Services operated at a deficit of approximately $386,000 and $108,000, respectively.

Service centers are to establish their rates based on allowable actual costs. Transportation Services management could not provide documentation showing how its vehicle usage rates were based on the actual costs. Management reported that it takes DAS's fleet rates and then adjusts them up or down for each vehicle category as is deemed appropriate. Its rates are generally higher than DAS's with no supportable reasons for the differences.

We compared Transportation Services's mileage rates with DAS's for similarly aged vehicles in 11 vehicle categories. DAS operates the state's primary vehicle fleet used by most agencies, including the University of Oregon.
For extended use vehicles, Transportation Services's rates were higher than DAS's rates in all but one category. On average, for a month of service, at 1,000 miles of use, Transportation Services's users paid from $3 to $183 more than DAS would have charged for a similar, usually newer, vehicle.

Short-term users paid rates that were more comparable to DAS's. For a one-day, 200-mile round trip, the differences in six vehicle categories ranged from $3 less than DAS's to $16.75 more. However, DAS provides mostly newer vehicles (less than two years old) for short-term use, and charges a higher rate than it does for its older vehicles. Transportation Services charges the same for new and old vehicles, and most of its short-term use vehicles are older than DAS's. Of the 78 passenger vehicles in Transportation Services's fleet as of June 1999, 20 vehicles (26 percent) were over five years old. Eight vehicles had been driven more than 100,000 miles.

We recommend that the University:

- Determine its costs to operate fleet vehicles and implement a vehicle usage rate structure based on the actual costs.

Applying Rates Equitably

The University charges different rates to different departments.

Some University departments need vehicles assigned for an extended period of time. Transportation Services charges different extended use rates to different departments for the same category of vehicle. For example, the regular rate for a minivan is $328 per month plus $.18 per mile. However, Transportation Services charges the University's Facilities Services department $193 per month plus $.22 per mile. The University’s administrative policies prohibit discriminatory rate structures.

We recommend that the University:

- Consider eliminating the two-tier rate structure and charge the same rates for the same categories of vehicles.

Oversight of the Fuel Inventory

Transportation Services can improve its oversight of the University's fuel inventory by establishing consistent inventory measurement procedures, and by setting error tolerance limits for the methods used. In addition, Transportation Services should act to investigate reasons for the sometimes significant differences between its fuel inventory measurements.

Transportation Services's records show that during fiscal year 1998-1999, between 8,100 and 13,000 gallons of fuel were extracted from its 12,000-gallon fuel tank each month. Transportation Services uses three measurement methods to track the amount of fuel in the tank:

- A running fuel inventory calculated by adding gallons delivered in bulk fuel purchases and subtracting gallons pumped.
- A fuel tank measurement taken at the end of each business day using a sounding stick graduated in inches. The stick measurement is converted to gallons using a conversion chart.
- An electronic tank reading, in gallons, taken prior to the start of each business day, which is compared to the sounding stick measurement.

The results are recorded in the fuel logs. From December 1998 to June 1999, the daily differences between the pump measurements and sounding stick measurements averaged 85 gallons. The differences between sounding stick measurements and the electronic tank readings averaged 177 gallons per day. We were told that the differences are not investigated and that acceptable error tolerances have not been established.

Transportation Services management could not provide records of examinations or certifications of its three fuel pumps. The pumps appeared quite old. We arranged for the Measurements Standards Division of the Oregon Department of Agriculture to conduct a pump meter examination. The test results showed that the pump meters were sufficiently accurate.

Upon learning that the pump meters were sufficiently accurate, we compared the electronic tank measurements to the pump measurements for the period March 1, 1999 through June 29, 1999. The differences averaged only two gallons per day, indicating that electronic tank measurements could be used as the primary means to track the fuel inventory.

We recommend that the University:

- Use electronic tank measurements as the primary means to track fuel inventory, comparing the measurement to the total gallons pumped each day. The electronic system must be maintained and operated in accordance with manufacturer's instructions to ensure accuracy and reliability.

- Develop error tolerance limits for all methods used to measure the fuel inventory.

- Investigate deviations from established tolerance limits. Document the procedures and results of each investigation.

- Improve the comparability of recording stick and electronic measurements by taking readings at the same time each day.

Establishing a Reliable System for Recording Fuel Sales

Although Transportation Services's three fuel pumps were sufficiently accurate, the system used to account for fuel delivered through the pumps was flawed and resulted in unreliable fuel sales records.

Fuel sales records were unreliable.

To record how much fuel is dispensed from a pump during one pumping cycle, an attendant must fasten an unnumbered paper "gas ticket" to the pump. The attendant is required to write on the gas ticket the date and the identity of the driver and the vehicle. A printer in the pump records on the gas ticket the number of gallons delivered during the pumping cycle. The pump also prints a transaction number on the sales ticket. After the pumping cycle is complete, the gas ticket is removed from the pump and transferred to Transportation Services's business office.

As described in the following section of this report, 11 individuals were issued keys that unlock the pumps. The number of keys in use, along with the following conditions and practices, may have contributed to unreliable fuel sales records and provided opportunities for theft:

- The pumps deliver fuel without a gas ticket.

- Sales dates are not always recorded on gas tickets.

- Transaction numbers printed on the gas tickets are not reliable because one pump prints transaction numbers out of sequence.

- Transportation Services staff records the total amount delivered through each pump each day by reading a meter on the pump. The totals shown on these pump meter records, however, are not properly reconciled to the amount shown on the gas tickets. We found that someone was amending the amounts shown on the gas tickets, apparently to obtain a total for the day that better matched the pump meter reading.

- The staff uses the gas tickets to bill users and, in the process, a day's tickets are separated. A day's gas sales cannot be verified once the tickets have been separated.

We attempted to verify fuel sales for four days during 1999. For one day there was no discrepancy between the total gallons printed on the gas tickets and the pump meter readings. For the other three days the discrepancies were 38.2 gallons, 16.5 gallons, and 16.3 gallons.

We also compared pump meter records to amounts printed on gas tickets for the month of December 1998. A 36.5-gallon discrepancy resulted.

Good business practice requires adequate documentation of business activities. Under its system of accounting for dispensed fuel, Transportation Services cannot provide assurance that University departments and public agencies are properly charged for the amount of fuel they use. In addition, fuel could be stolen through the pumps with no record of the amount or the time of the theft.

We recommend that the University:

- Stop making unsupported manual adjustments to the amounts printed on gas tickets.

- Consider replacing the fuel pumps with newer models having electronic dispensing controls.

- Establish procedures to document daily fuel sales and investigate fuel sale discrepancies.

Control of Building Keys

Transportation Services was not properly controlling building keys.

Transportation Services's building keys were not properly controlled as is required by University policies and procedures. Several employees had keys that gave them access to areas unrelated to their job responsibilities. Records indicate that former employees had not returned keys upon separating from service. For example:

- One key unlocks the main entrance to the Transportation Services building, the manager's office, the maintenance and repair shop, three fuel pumps, and the 12,000-gallon fuel tank. Records showed that 11 individuals have been issued copies of the key, including clerical staff, an accountant, a computer programmer, and a consultant.

- One key opens the paint shop and the maintenance and repair shop. Records indicate that anywhere from 7 to 35 copies of the key have been issued, with no record of keys being returned.

- A key to the parts supply room was shown to be in the possession of a former manager at the time he separated from service in 1996.

It is a good business practice to limit employees' access to only those areas necessary for performing their job duties. University policies and procedures require management to account for all keys, assign keys only to authorized current employees, and ensure that keys are returned when an employee separates from service.

We recommend that the University:

- Re-key Transportation Services's building and grounds.
- Provide employees with key access only to areas needed for the performance of their job duties.
- Follow University policies and procedures for managing keys.

Developing a Usable Fleet Management Database

Fleet management software was not used effectively.

Transportation Services owns a commercial fleet management software package but was not effectively using it to account for fleet operations. In reviewing Transportation Services's use of the database software, we noted the following problems:

- Desk manuals and operating instructions for the database system were generally not available to users of the system.
- Management and staff could not use the software to generate the cost, vehicle repair history, and inventory reports that the database system was designed to produce. Because data input to the system could not be accessed, we performed our audit using archived hard copy records. In doing so, we found that Transportation Services had not maintained complete records of its operations.
- The database is programmed to add 16 percent to the cost of parts input to the system. This limits the use of the database for accurate cost analysis.
- Vehicle use and expenditure data were not applied to the correct time periods. For example, one vehicle had 4,000 miles of use recorded during one month, with no fuel expenditures recorded for the same month.

We recommend that the University:

- Obtain training for management and staff for their developing a working knowledge of the fleet database software.

- Develop and implement procedures to ensure the accuracy of data input to the fleet database system.

Maintaining Transaction Records

Transportation Services needs to improve its documentation of all of its business activities. Its records were in disarray.

- Management could not provide invoices or other documentation to support the purchase of 11 of 19 items for its parts inventory. Management was able to obtain records for seven of the 11 transactions by contacting the private vendors who had sold the goods to the University.

- Staff could not provide documentation supporting the decision process to surplus eight of the 30 vehicles removed from the fleet between July 1, 1998 and June 30, 1999.

The University’s administrative policies and procedures require that adequate documentation be retained as evidence of the University's business activities.

We recommend that the University:

- Instruct management and staff to follow University document retention policies and procedures. Require Transportation services to retain documentation of all transactions, including those involving surplus property.

- Organize Transportation Services's automated and paper files to facilitate retrieval of records.

Revising the Fee on Fuel Sales

Transportation Services improperly charges users a fee based on the federal gasoline tax from which they are exempt. Transportation Services uses credit cards to pay for fuel used by fleet vehicles when they are away from the campus pumps. The credit card company bills the University on a monthly basis. Some departments and other government agencies that own their own vehicles also purchase fuel with credit cards that are included in the University’s bill. Transportation Services makes payment and charges user departments and other agencies for their usage. Federal taxes appear on the credit card billings. Because the state is exempt from the federal taxes, Transportation Services deducts them from the amount it pays. However, the amount of the federal tax is not deducted from the amounts billed to the departments and other users. As a result, some users are paying approximately 18 cents per gallon more than they should. Because the fee is not charged separately, users may not know that they are paying it.

The total amount that Transportation Services receives through this practice is not significant—approximately $1,000 per year based on sales of nearly 5,500 gallons. However, Transportation Services was not in compliance with University administrative policies that require administrative service fees, when allowed, to

be separately identified in the University's official fee book, and separately accounted for in service centers' accounting records.

We recommend that the University:

- Determine if the fee based on the amount of the federal gasoline tax is allowed. If so, follow University policy and separately identify and account for the fee. Otherwise, stop charging departments and other users the fee.

Chapter 6: Relationship With Foundation

The Oregon State University Foundation (Foundation) receives, invests, and administers donated funds and property on behalf of the University. Donors may designate (restrict) how their gifts are to be used, or they may put no restrictions on their gifts. Our audit found that OUS and the University had not established adequate guidelines for using and accounting for unrestricted gift funds. Unrestricted gift funds were sometimes used in ways not mentioned or suggested by University and Foundation gift solicitation literature. The audit also found that the University and Foundation were operating under an expired contract, and that during one year approximately 19 percent of the Foundation's support to the University was not recorded on the University's accounting system.

Background

Until July 1, 1999, the Oregon State University Foundation worked with the University's Development Office (Office) to encourage support of the University's programs. The Office's charge was to build relationships with individuals, corporations, and foundations, and encourage them to support the University with contributions of both time and financial resources. The Office led the planning and implementation of fundraising programs.

The Foundation and the Office occupied the same office on the Corvallis campus until May 1999. At that time, the Foundation, and most of the Office's staff, moved to a property in Corvallis owned by the University and leased to the Foundation. At the time of our audit, the Office was being dissolved and its functions contracted out to the Foundation. The reorganization was to take effect July 1, 1999; however, at the time of our audit, all issues had not been fully resolved.

According to the contract in effect at the time of our audit, the Foundation was responsible for "receiving, investing and administering funds for charitable, scientific, and educational activities of the University."[3] It was to cooperate with the Office, which was responsible for fund raising activities, and to provide funding to the University through donated funds in accordance with donors' wishes.

[3] Contract Between Oregon State University and Recognized Foundation dated May 6, 1996, Clause 9:01 (1)

For the fiscal years 1993-1994 through 1997-1998 the Foundation reported that funds were provided to the University for the following purposes:

FOUNDATION SUPPORT FOR THE UNIVERSITY, BY FISCAL YEAR
(in Millions)

	1993-94	1994-95	1995-96	1996-97	1997-98	Total
Awards & Scholarships	$ 3.12	$ 3.11	$ 2.47	$ 3.74	$ 5.23	$ 17.67
Capital Programs	$ 2.57	$ 16.15	$ 5.46	$ 23.41	$ 6.81	$ 54.39
Faculty support	$ 1.67					$ 1.67
Instruction & Research Support		$ 1.62	$ 1.93	$ 3.28	$ 2.58	$ 9.40
Other Program Support	$ 3.33	$ 2.34	$ 3.14	$ 3.22	$ 3.15	$ 15.18
Fund Raising Support						$ -
OSU Development Office Support		$ 1.06	$ 1.00	$ 1.20	$ 0.95	$ 4.22
Total (Millions)	$ 10.69	$ 24.28	$ 14.00	$ 34.85	$ 18.72	$ 102.54

Recording and Reporting All Transactions With the Foundation

It is a basic principle of financial accounting that financial records and statements accurately and completely reflect an entity's fiscal activity. The University's procedures for recording its transactions with the Foundation were in conflict with this principle.

Each department determines the method of payment and recording of its Foundation funds.

The University allows its departments to use, at their discretion, various methods of accounting for Foundation-related transactions. When a University department receives an invoice for goods or services purchased by a University employee, and it intends to use Foundation funds to make payment, the department has three options from which to choose. The department may:

1. Request that funds be transferred from the Foundation to a University account. After the funds are received, the department will process payment of the invoice. In this case, the transaction appears on the University's accounting system;

2. Process payment of the invoice, and then request reimbursement from the Foundation. In this case, the transaction appears on the University's accounting system; or

3. Send the invoice to the Foundation and request direct payment. In this case, under current University procedures, when the Foundation makes payment, the transaction is not recognized and does not appear on the University's accounting system.

One-fifth of the funding provided by the Foundation was not recorded in the University's accounting system.

If payment option number one or two is used, the revenue from the Foundation and the expenditures from the University are reported on the University's accounting system. If payment option number three is used, however, no record of the revenue or expenditure exists.

For fiscal year 1997-1998, the Foundation reported that it provided $18.7 million in support to the University. Of this amount, approximately $3.6 million (19.2 percent) was provided under payment option number three as direct payments on University obligations. These unrecorded transactions consisted of Foundation payments on invoices and reimbursement requests for expenditures made by University employees.

By allowing its departments to obtain Foundation support under payment option number three, the University is allowing different accounting methods to be used at the discretion of each department. This results in incomplete and inconsistent reporting of University fiscal activity. Accountability for a department's fiscal activities is lost when the department is allowed to decide which of their expenses will be paid by the Foundation but not recorded and reported on the University's accounting system.

We recommend that the University:

- Establish procedures for processing and recording all University transactions with the Foundation.
- Disclose in its financial statements the total amount and the nature of the University's transactions with the Foundation.

Defining Allowable and Unallowable Uses of Unrestricted Gift Funds

To provide accountability objectives for its use of Foundation unrestricted gift funds, the University should establish policies or guidelines that describe allowable and unallowable uses of the money. Gifts for which donors have not provided specific instructions for their use are considered unrestricted gifts. University employees spent approximately $1 million in unrestricted gift funds during fiscal year 1997-1998. Of this total, the audit questions approximately $269,000 (27 percent).

Some unrestricted gift funds were used to purchase items not consistent with University and Foundation gift solicitations.

University employees spent unrestricted gift funds on goods and services that were not consistent with the uses described in the University's contract with the Foundation, and in University and Foundation gift solicitations. Some of the unrestricted gift funds were spent on items that cannot be bought with state funds, such as gifts, and food and alcohol for parties. The gift solicitation materials did not mention the fact that unrestricted gift funds went for these uses.

The University's intended use of unrestricted gift funds is described in its contract with the Foundation. The contract states, "Funding is normally provided for purchase of UNIVERSITY equipment and supplies; faculty travel; support of research by selected faculty, staff, and students; funding faculty chairs; providing scholarships to students in carrying out other activities of the UNIVERSITY involving educational, research, cultural, scientific, public service, and other charitable activities and lawful purposes of UNIVERSITY."[4]

The Foundation's *Guide For Giving* and related publications include examples of how gift funds have been used. Uses include scholarships, endowments, library renovation, graduate fellowships, research, and faculty development.

Examples of questioned items include:

- Catering expenses for a July 1997 Chancellor's Office official retirement dinner in Eugene amounting to $1,622. Of the total paid, $350 was for alcohol.

- A December 1997 holiday open house at a Dean's home for faculty and staff costing more than $1,000. The money went for food, alcohol, and decorations.

- Payments to florists totaling approximately $11,000 during fiscal year 1997-1998. At least $2,500 of these appeared to be employee related. These included flowers for staff illnesses, for the illnesses or deaths of staffs' family members, for Secretary's Week, and for office decorations and special occasions.

[4] Contract Between Oregon State University and Recognized Foundation dated May 6, 1996 Clause 9:01(3)

- A June 1999 retirement party for a University staff member costing more than $500.

- Birthday, farewell, and retirement cakes for staff costing between $15 and $40 each, for a total of at least $860 in fiscal year 1997-1998.

- Sponsorship of a table at a Boy Scout dinner in 1997, a donation amounting to $1,750.

Neither the University nor the Foundation had established rules or policies that describe allowable and unallowable uses of unrestricted gift funds.

OUS and the University have established rules and policies for using state funds. Many of the expenditures listed above could not have been made with state funds. For example, state funds are not to be used to purchase alcohol. A University policy provides that expenses for entertaining and hosting official groups and guests are allowable; the policy does not say that expenses for entertaining and hosting faculty, staff or students are allowable.[5] The University accounting manual provides that flower purchases "...are not normally considered proper expenditures of institution funds."[6] Voluntary donations (such as sponsoring a table at a Boy Scout dinner) are not allowed.[7]

To provide donors with assurance that unrestricted gift funds are used in the ways described in University and Foundation gift solicitations, and to provide accountability objectives for those entrusted with the money, the University president should establish usage policies.

We recommend that the University president:

- Establish policies with guidelines describing allowable and unallowable uses of unrestricted gift funds. Ensure that the allowable uses of unrestricted gifts are aligned with the objectives and uses reported in University and Foundation gift solicitation literature.

---

5 OUS Financial Administration Standard Operating Manual (FASOM) [E][1b]
6 Ibid. [F][2]
7 Ibid. [C][5]

- Consider clarifying and expanding gift solicitation literature descriptions of how unrestricted gift funds are used.

Establishing Procedures For Authorizing and Reporting the Use of Unrestricted Gift Funds

The University allowed departments to use unrestricted gift funds without adequate oversight or documentation. Some University employees were in a position to authorize their own expenditures and approve their own reimbursement payments. In some cases, no documentation existed showing how the money was spent. When documentation was retained it usually did not show the purposes or beneficiaries of the expenditures. The following examples of unrestricted gift fund expenditures show a need for improved oversight and record keeping.

- One department spent $1,191 for a banquet at a Portland hotel with no documentation showing how many attended or why the banquet was held.

- Another department spent $1,081 for 296 wineglasses with no indication of who was to receive them or their University-related purpose.

- A department head incurred a $174 dinner charge, and then approved payment to reimburse himself. The documentation did not show how many dinners were purchased, who was at the dinner, or if the dinner served a University-related purpose.

Documentation supporting expenditures was often inadequate.

We noted that purchases made by the University and paid for with Foundation unrestricted gift funds were usually supported by less documentation than other University purchases. University staff acknowledged providing less documentation when the obligation was paid for with Foundation gift funds.

Expenditure documentation provided to the University and to the Foundation often did not appear to meet University or Federal Internal Revenue Service (IRS) standards. For example, for a University employee to obtain reimbursement for a meal, the University requires the employee to submit a fully itemized receipt. IRS regulations require documentation showing the business purpose of a claimed expense.[8] The documentation for the $1,191 banquet and the $174 dinner met neither of these standards.

We recommend that the University:

- Require departments to separate responsibilities for authorizing, recording, and approving payment for gift fund expenditures.
- Require adequate documentation for requests for reimbursements from gift funds, including receipts showing the items purchased, the amount, and the date; explanations of the business purpose of the expenditure; name(s) of those benefiting from the expenditure; and any additional information needed to justify the expense.
- Provide training to accounting staff regarding the necessity of obtaining complete supporting documentation before processing payment.

Ensuring Prior Approval and Adequate Record Keeping of Foundation-Paid Employee Benefits

OAR 580-046-0035 (6)(b) requires that benefits paid to employees by the Foundation should be, "Approved by the president in writing, and reported to the Chancellor…." University employees had been receiving Foundation-paid fringe benefits without written approval that identified the beneficiaries.

The University's Athletic Department has six corporate memberships to the Corvallis Country Club that are given to various athletic department staff members. During fiscal year 1997-1998, each membership cost $2,163, with a total paid of $12,789. The Foundation paid for these memberships in fiscal year 1997-1998. Beginning in fiscal year 1998-1999, the University paid for the memberships.

8 IRS Publication 463 Travel, Entertainment...5 Recordkeeping, How to Prove Expenses

Approval occurred after benefits had been received and did not list names of staff receiving benefits.

A letter from the University President to the OUS Chancellor, dated December 1, 1997, indicated that the president had learned of the Foundation-paid country club benefits, and had given his approval. This approval occurred after the Foundation had paid for some of the country club memberships. The letter did not state who received the memberships.

According to the same December 1997 letter, local car dealers had been providing leased vehicles to coaches and staff in the Athletic Department, as well as a college dean. The dealers received donor recognition by the Foundation. The president's approval of this arrangement, after the fact, did not identify the athletic department staff receiving the benefits.

Benefits were not reported as income.

Information provided by the Foundation showed that the employee benefits described above were not reported to the IRS as employee income in either 1997 or 1998.[9] It is reasonable to expect that a portion of any country club membership would go for personal use. According to federal tax law, the Foundation should have reported personal use as income. The University reported the country club memberships as employee income for the last half of 1998 and for 1999.

We recommend that the University president:

- Ensure that annual approvals of Foundation paid benefits occur before the benefits are provided. Approvals should name recipients and describe the nature and value of the benefits.
- Work with Foundation management and University staff to ensure that personal use of Foundation funded benefits is appropriately reported to the IRS.

[9] IRS 1998 Instructions for Forms 1099,1098,5498, & W2G, Form 1099-MISC Miscellaneous Income

Discouraging Departments From Overdrafting Their Foundation-Funded Accounts

Funds spent on interest penalties are not available for the purposes intended by donors.

University departments incurred unnecessary expenses by overdrafting Foundation funded accounts. This occurred when the departments paid invoices before requesting funds from the Foundation. It is a University policy that gift fund accounts should not be overdrafted. OUS imposes an internal interest charge on overdrafts.

During fiscal year 1997-1998, the total amount OUS charged for overdrafts in the accounts was $17,014, with a total of 58 accounts having interest charges. Seven accounts were responsible for $16,919 of the amount charged. Funds spent on interest penalties are not available for the purposes intended by donors.

We recommend that the University:

- Advise all other departments of appropriate practices in order to minimize, if not eliminate, the loss of Foundation gift funds to unnecessary interest penalties.

Discontinuing Limited Signature Authority Over Foundation Accounts

State rules disallow even the appearance of University control over Foundation property.

The University president, as secretary of the Foundation, was authorized as a co-signer on Foundation checks for over $10,000 not payable to the University. This arrangement provided the appearance that the president had control over Foundation property. State rules require foundations to be independent from their institutions. Part of that rule advises that University employees should not appear to have control over a foundation or its property.[10] We found no instances in which the president exercised this authority.

[10] OAR 580-046-0025 (2)(b) states, "To assure independence, a foundation's governing body, employees, and agents: Shall not give the appearance that the institution or any of its officers or employees control the foundation or its property, including investment of gifts and endowments made to the foundation."

We recommend that the University:

- Ensure that no University employees are allowed signature authority over Foundation accounts.

Improvement of Gift Reporting

Gifts received by the Foundation and awards to the University may differ.

OAR 580-046-0035, and clause 6:02 of the contract between the University and the Foundation, dated May 6, 1996, required the Foundation to provide the University with an annual report of gifts. The Foundation, however, had been providing an annual report of awards (funds made available by the Foundation).[11] While the Foundation reported larger gifts on a monthly basis, this did not meet the annual gift reporting requirement. The larger gifts were reported to ensure appropriate donor recognition. Both gifts and awards should be reported to provide the University with complete information on the Foundation's resources.

Because donations are made in a variety of ways, the value of gifts received and awards to the University during a year are not necessarily equal. For example, the Foundation may receive a gift of a piece of property, but it will not be considered an award until the property is sold and the proceeds are made available for University use.

We recommend that the University president:

- Request that the Foundation comply with the requirements and provide annual reports of both gifts and awards.

[11] OAR 580-046-0035 (3): "The foundation shall report gifts to the foundation and to an institution as a result of foundation activities. Such reports shall be made annually to the president. The president shall provide such reports to the Chancellor."

Maintaining an Accurate and Complete Contract With the Foundation

At the time of our audit, the University and the Foundation were operating under an expired contract that did not accurately and fully describe the relationship between the two entities. Oregon Administrative Rule 580-046-0035 (7) states that institutions may provide limited and reasonable support to their foundations. The rule also provides that contracts between institutions and foundations shall, "…accurately and fully describe the extent of such use and support and the consideration therefor."

The contract that expired on June 1, 1999 appeared to meet the administrative rule requirements for the previous three-year period it covered, but not the current period. Provisions of that contract included:

- 8.01 The University shall operate and maintain a Development Office;
- 8.02 The University shall provide rent-free office space in Snell Hall. This includes limited office furniture and equipment; and
- 8.06 The University may provide other limited and reasonable support to the Foundation consistent with the other provisions of this section.

The relationship between the University and the Foundation has been changing.

During 1999 and 2000 the relationship between the University and the Foundation was in a period of transition; but the contract between the two parties had not been updated to reflect the changes. A contract extension dated September 2, 1999, extended the contract through November 30, 1999. This extension, however, was not reviewed by an Assistant Attorney General, as required by OAR 580-046-0035(7)(B), until October 1, 1999. The provisions of the extension did not reflect the actual circumstances, such as:

- The University was no longer operating a Development Office. Instead, University Development Officers were transitioning from University employment to Foundation employment.
- State property with an estimated value of as much as $100,000 had been transferred to the Foundation's new office. This

included office equipment, computers, furniture, and files owned by the University and used by the former Development Office. No provisions had been made to transfer ownership to the Foundation or specify under what conditions the University had provided those items.

We recommend that the University:

- Execute a contract with the Foundation that fully describes the relationship between the University and the Foundation, and that assures compliance with relevant administrative rules.

Establishing Guidelines For Approving Gift Restrictions

There are no University-wide guidelines for approving gift restrictions.

According to Oregon Administrative Rule 580-046-0035(2)(a) and (b), the University is to approve any restrictions on gifts.[12] Under the arrangement in use at the time of our audit, each University department independently approved restrictions on gifts made to the department using its own standards. According to the Council for Advancement and Support for Higher Education, university-wide guidelines help ensure uniform treatment of donors, and eliminate potential problems due to conflicting standards within a University.

We recommend that the University:

- Establish University-wide guidelines on approving gift restrictions.

12 OAR 580-046-0035(2): "In accepting gifts of any kinds, a foundation shall: Obtain institution approval of any restrictive terms and conditions, and advise donors that a restricted gift for the benefit of the institution may not be accepted without institution approval; and coordinate with the institution's development office or other appropriate institutional officer regarding funding goals, programs or campaigns proposed by an institution."

Chapter 7: Other Matters

Computer Access Restrictions

When an employee who is authorized to access the University's Banner accounting system separates from service, the responsible department is required to notify the Central Computing department to terminate access. Every six months, Central Computing sends each department a list of employees who have access to the accounting system. The departments are to respond by identifying current employees with authorized access. If a department does not notify Central Computing when an employee separates, the employee could have access to University accounting records until the department responds to the six-month listing.

To determine whether or not former employees had accessed accounting records, we obtained from Central Computing a download of all employees who had access to the University's accounting system between 1997 and 1999. We compared the names in the listing to the names of 745 employees recorded as separated from the University during the same period. According to the records, only six of the 745 former employees had ever accessed the accounting system. One of the six individuals accessed the system after his recorded termination date; however, he did not change any records.

As a security measure, the director of Central Computing reported that he is planning to implement a programming change so that that when an employee is recorded as separated in the University's personnel system, his or her access to automated University systems would be terminated.

We recommend that the University:

- Ensure that employee access to automated University systems is removed upon separation from service. This procedure should be included on an employee separation procedures checklist

Encouraging Economical Purchasing

In reviewing University expenditures made with state credit cards and Foundation funds, we saw that different departments were separately purchasing similar items directly from vendors. In many cases, had the purchases been made through state price agreements, the goods and services could have been obtained at lower prices.

For example:

- One department purchased four laser printer cartridges at $125 each for a total of $500. These same items could have been purchased through a state price agreement for $86.86 each, a savings of $152.56 for the four items.

- Another department purchased two calendar refills directly from the manufacturer. The total cost was $40.89. These same items purchased through a state price agreement for a total of $15.48.[13]

- During fiscal year 1998-1999, 29 state credit cards had charges to Internet Service Providers (ISP). Department employees use dial-up ISP accounts to access University e-mail while on travel status. Charges were made to a variety of vendors at standard retail rates ranging from $13.95 to $21.95 per month. During our audit, the University reported that it was developing a Request for Proposal to identify a single ISP to provide service to all departments at a substantially discounted rate.

We recommend that the University:

- Continue exploring ways to provide University departments with commonly-used goods and services at discount rates.

- Encourage University staff to make acquisitions as economically as possible. Provide department staff with training in the use of state price agreement contracts.

[13] Price Agreement 6051 Office products, 1999 contract pricing

OBJECTIVES, SCOPE, AND METHODOLOGY

Operations

The specific objectives of this portion of the audit were to determine whether:

- The University and its departments had implemented controls over its procurement card program to protect the state from monetary loss;
- University departments were tracking minor equipment sufficiently, including the use of equipment off-campus, to adequately safeguard state assets; and
- University controls over the payroll process were adequate to prevent and detect overpayments to current employees and employees that had separated from the University, and whether the University recovered payroll overpayments in a timely manner.

To accomplish these objectives we:

- Reviewed applicable state laws, regulations, and policies, and researched other institutions' policies and practices;
- Reviewed audits completed by OUS' Internal Audit Division;
- Reviewed the University's policies and procedures related to procurement cards, equipment and payroll;
- Interviewed staff in the University's offices of Business Affairs, Human Resources, Payroll, and Property Management;
- Conducted on-site work at University departments to interview personnel and review documents pertaining to procurement cards, equipment, and payroll;
- Obtained and analyzed electronic data pertaining to payroll payments and equipment inventory;
- Tested procurement card transactions by tracing transactions to supporting documentation, and reviewing information departments submitted to Business Affairs;

- Reviewed departmental procedures for managing minor equipment; and
- Reviewed overpayment information on file at the University Payroll office.

Our audit reviewed credit card expenditures for fiscal year 1998-1999, and current information regarding equipment maintained at the departmental level. We also examined payroll payments recorded in the University's database for January through July 1999.

Surplus Property

The specific objectives of this portion of the audit were to determine whether:

- The University's surplus property program was operating in compliance with applicable law, rules, policies, and procedures;
- The University was receiving adequate compensation for the disposed property; and
- Controls over cash and surplus property items were adequate to safeguard state assets.

To accomplish these objectives, we:

- Reviewed applicable state laws and rules, and applicable University policies and procedures;
- Interviewed management and staff at Property Management and at DAS's surplus property office;
- Reviewed mailing lists, and electronic reports of surplus property sales and inventory;
- Performed tests of sales transactions, including tracing recorded transactions to supporting documentation; and
- Observed cash and asset-handling procedures used at a public sale conducted by Surplus Property.

Our audit reviewed Surplus Property activities and transactions during the period July 1, 1998 through December 31, 1999.

Transportation Services

The specific objectives of this portion of the audit were to determine whether:

- Opportunities existed for more cost-effective operations;
- Controls over the fuel and parts inventories were adequate to safeguard state assets; and
- Transportation Services's vehicle rates were reasonable and comparable to DAS's rates.

To achieve our objectives, we:

- Reviewed applicable state laws and rules, and applicable University policies and procedures;
- Interviewed management and staff at Transportation Services, and at the DAS motor pool;
- Reviewed vehicle inventory and mileage records, fuel inventory, purchase and sales records, parts inventory records, and building key records;
- Examined documentation for vehicles purchased and surplused;
- Performed comparisons of Transportation Services's vehicle rates to DAS's rates using published rate schedules; and
- Procured fuel pump testing services from the Oregon Department of Agriculture's Measurement Standards Division.

Our audit reviewed Transportation Services's activities and transactions during fiscal year 1998-1999, and current information on fleet vehicle purchases.

Oregon State University Foundation

The specific objectives of this portion of the audit were to determine whether:

- The University had properly recorded in its accounting records all transactions involving Foundation funds;
- University expenditures paid directly by the Foundation conformed to University spending policies;
- University expenditures of unrestricted gift funds conformed to the stated objectives and uses of gifts as reported in University and Foundation gift solicitation literature;
- University expenditures of unrestricted gift funds conformed to OUS and University policies and rules;
- University departments had overdrafted Foundation funded accounts;
- The University had approved and reported Foundation funded benefits provided to University staff;
- The University maintained its independence with regard to Foundation signature authority;
- Support that the University provided to the Foundation conformed to state rules and contract requirements; and
- Whether restricted donations were assigned to appropriate Foundation and University accounts, and spent in compliance with donors' instructions.

We did not perform a financial or compliance audit of the Foundation's records.

We evaluated financial transactions between the University and the Foundation using data primarily from fiscal year 1997-1998 that was provided by the University and the Foundation. We traced the data to supporting documentation. We reviewed various informational and promotional documents about the Foundation that were published by the University and the Foundation. We reviewed the Foundation's audited financial statements and annual reports on file with the Department of Justice.

To understand and evaluate the origins of the Foundation and its relationship to the University, we:

- Reviewed the Foundation's articles of incorporation and by-laws;
- Reviewed the Foundation's audited financial statements and annual income tax reports;
- Surveyed foundations serving OUS's peer institutions;
- Interviewed personnel at the University and the Foundation;
- Reviewed Oregon State Board of Higher Education and Foundation meeting minutes; and
- Compared University activities to applicable federal and state laws and regulations.

Scope Limitation

The Foundation declined to provide us with access to records of donations received in fiscal year 1997-1998. (See Appendix A.) As a result, we were unable to complete audit tests to provide assurance that donors' restricted gifts had been assigned to appropriate accounts and were expended in compliance with donors' instructions. Oregon University System management supported the Foundation's decision to deny our access.

We conducted this audit in accordance with generally accepted government auditing standards.

COMMENDATION

The courtesies and cooperation extended by the officials and staff at Oregon State University and the Oregon State University Foundation were commendable and much appreciated.

Audit Team

James D. Pitts, Audit Administrator
Dale Bond, CPA
Diane Farris, CPA
Marlene Hartinger, MM
Darcy Johnson, CPA
Samuel Breyer
Judy Busey
Lee Helgerson
Wendy Kamm
Silvar Storm
Farrah Taylor
Margaret Wert

APPENDIX A:

OSU FOUNDATION LETTER TO OREGON AUDITS DIVISION DATED OCTOBER 14, 1999

OSU Foundation
OREGON STATE UNIVERSITY

850 SW 35TH STREET ▪ P.O. Box 1438 ▪ CORVALLIS, OR 97339-1438
PHONE: 541-737-4218

October 14, 1999

Jim Pitts
Audit Administrator
Oregon Audits Division
Secretary of State Office
255 Capitol Street NE
Suite 500
Salem, OR 97310

Dear Mr. Pitts:

Thank you for your letter of 9/28/99. It was helpful to have the audit objectives presented in concise form, and to have a statement of intent describing the needs for completion of your audit.

I have carefully evaluated the request to explore a random sample of thirty gift records from the OSU Foundation. I am not willing to release the records. Given the private status of our organization, and the assurance of confidentiality we provide to our donors, it is not appropriate to release donor names or gift information to an organization without express authority to audit the Foundation.

Further, I believe it is possible for you to assess compliance with donor intent through the University audit process. The Foundation transfers funds designated for specific purposes to the University. Special accounts are established in the University to receive these funds. Donor intent is communicated by the Foundation to the University. What actually happens with those funds is a University transaction.

On the second request to determine if advances from the OSU Foundation to the 4-H Club Foundation were repaid according to the merger agreement between the two parties, I must also decline this request. The 4-H Foundation became an Associate of the OSU Foundation in 1990 under the Oregon Administrative Rules. There is no basis for an audit of the 4-H Foundation given compliance with the regulatory requirements of this state which prescribe the nature of our relationship.

OSU Foundation

Please contact me at (541)737-1760, or Pete Barnhisel, OSU Foundation Counsel, at (541)757-0575 if you require additional clarification.

Sincerely,

Rebecca S. Cole
President

C: Pete Barnhisel, Fenner, Barnhisel, Willis & Barlow, PC
Marv Wigle, Director, OUS Internal Audit
Ben Rawlins, Director, Legal Serivces, OUS
Steve Wolf, Assistant Attorney General, Department of Justice

AGENCY’S RESPONSE TO THE AUDIT REPORT

FINANCE
AND
ADMINISTRATION

OREGON
STATE
UNIVERSITY

640 Kerr Administration
Building
Corvallis, Oregon
97331-2156

Telephone
41-737-2447

Fax

October 16, 2000

John Lattimer, Director
Oregon Audits Division
255 Capitol Street NE, Suite 500
Salem, OR 97310

Dear John:

Attached is Oregon State University's response to your audit findings, Review of Selected Operations, dated October 2, 2000.

We appreciate the opportunity to provide our views on your findings. We do concur with a number of your suggestions and have implemented many, as recognized in our response.

I wish to thank you and your staff for the professional manner in which they conducted these seven separate audits.

Sincerely,

Robert M. Specter
Vice President

Enclosure

cc: Joe Cox, Chancellor, Oregon University System
Paul Risser, President, Oregon State University
Tim White, Provost, Oregon State University
Patricia Snopkowski, Director, OUS Internal Audit Division

AGENCY RESPONSE

Management of OUS generally agrees with the conclusions and recommendations of the report with the exception of the comments related to the OSU Foundation, Inc. A summary of the university's response is provided below:

State credit cards

The university system views this program as an extremely valuable way to cut operating costs related to processing invoices. Management agrees the state credit card program should be managed closely, and thus has improved the central monitoring and the communication of credit card policies throughout the university.

Minor Equipment

Management has not determined the level of losses sustained with minor equipment. The university agrees that high-risk items should be closely monitored to minimize the risk of loss. Data related to loss of high-risk items will be reviewed and policies will be adjusted relative to the losses sustained. Proof of ownership will be required before loss claims can be approved and processed. A completed loan agreement will need to be filed before equipment can be used off-campus. Also, the policy is being reviewed to require employees terminating their employment with the university to turn in all equipment in their possession on their last day of work.

Payroll Overpayments

Management agrees that payroll overpayments did occur during the first few months of system implementation. In the case of classified employees, the university's ability to collect payroll overpayments is limited to the payment schedules outlined in collective bargaining agreements. However, the university has seen a significant decrease in the number of overpayments since the initial implementation period of the new payroll system. The university will continue to seek ways to improve collection procedures.

Surplus Property

Management will reiterate and monitor policy compliance to ensure employees do not participate in purchasing surplus items other than those offered at public auctions. Management has expanded the duties of the surplus property manager to include the duties of auctioning off items. The change in duties eliminates the appearance of a conflict of interest.

Transportation Services

Management agrees that controls related to transportation services needed improvement. During the audit, the function was undergoing reorganization. Subsequent to the reorganization, business practices were strengthened and rental rates were reviewed. Management will continue to work with the Oregon Department of Administrative Services to ensure the motor pool operations are in compliance with state guidelines while addressing the university's unique needs.

Relationship with OSU Foundation

The OSU Foundation, Inc. is a legally separate, 501 (c) (3) corporation that solicits, receives, invests, and disburses gifts for and on behalf of the university. Most of the auditor's findings concerning the relationship between the university and the OSU Foundation, Inc. are founded in the premise that the university and the OSU Foundation, Inc. are inseparable, and therefore all funds in that private corporation are to be treated as public funds. To the contrary, OSU maintains that the OSU Foundation, Inc. funds are private, and not subject to state audit. The OSU Foundation, Inc. contracts annually for its own audit, as do most private corporations. Its audit report and its annual report of activities are made public, available to anyone who requests them.

Secretary of State Audits Division
OSU Review of Selected Operations

OSU Response

Chapter 1: Credit Cards

Background
The university's procurement card program substantially changed since the Audit Division's completion of fieldwork. The audit fieldwork, conducted in the last half of 1999, coincided with the final six months of a four-year contract with a vendor whose service quality had been the subject of great concern. A new program with a new vendor was implemented in March of 2000. The State of Oregon also chose to participate in this new relationship. Along with the new vendor, new policies and procedures were implemented and communicated to all card holders. All guidelines and procedures are available on the university's web site and are included with this response as attachments (Attachment 1).

In addition, the Business Affairs payables department, with direct responsibility for oversight of the procurement card program, was reorganized. Two accounting technicians have been assigned to review monthly purchasing activity logs from the departments. There is also a new manager in this department who was very involved in developing the guidelines and procedures.

Central Review of Charges
We have implemented a two-tiered review, which we believe provides appropriate protection against misuse of this program. We also have a policy to suspend purchasing card access when repeated misuse occurs. We believe that the procedures described below follow the recommendations presented in the audit report.

Need for Clear Policies
All participants in the procurement card program (department budget authorities, card custodians, and designated users) have been provided the new policies and procedures. These include:

- Departmental Agreement: includes detailed descriptions of department budget authority and card custodian responsibilities along with their signatures stating that they understand the responsibilities and agree to be bound by the terms and conditions of the agreement.
  Designated User Agreement: includes statement of the statutory compliance rules and potential penalties for misuse.
  Card Purpose & Suggested Uses: includes description of appropriate uses for the card and a list of example purchases.
  Prohibited Uses: includes list of prohibited purchases by description and by account code.

- Revocation & Suspension Procedure: includes description of process by which departments will be notified of misuse and list of inappropriate uses which will result in immediate revocation and lesser sanctions.
  Frequently Asked Questions: includes questions regarding specific types of purchases.

We believe that this set of documents represent clear and comprehensive policies and therefore follow the recommendations of the audit report.

Departmental and User Agreements
No cards have been issued without signed agreements on record in the Payables department. We have therefore followed the recommendations of the audit report.

Supporting Documentation
The documents identified above clearly state the card custodian is responsible for submitting supporting documentation as a part of the monthly packet sent to the Payables department. It is further required that if any original documentation is missing, the expense without documentation will be identified on the VISA statement, and the form "Affidavit of Missing Document" will be completed and signed by both the card custodian and department budget authority. If violations are recorded by Business Affairs personnel, the purchasing card will be revoked.

We believe that these procedures follow the recommendations of the audit report.

Separation of Duties
Each Departmental Agreement and Designated User Agreement was reviewed by Payables department personnel to ensure that the departmental budget authority and the card custodian were different individuals. We encouraged departments to separate users from the card custodian. We believe that our procedures follow the recommendations of the audit report.

Card Security
The Departmental Agreement includes the following provision for custodians:

> "e. **Accountability and Procedures**: I will protect and control the VISA Purchasing Card at all times. I will retain physical custody of the card and will ensure that it is kept in a secure location. **I will not give the card number to anyone except authorized OSU employees who have signed the Designated User Agreement.**"

We believe that this policy follows the recommendations of the audit report.

Infrequent Use
The new purchasing program has generated approximately 12% fewer cards. Business Affairs personnel will review individual card usage annually.

No Penalties for Policy Violations
As stated above, we have a Revocation and Suspension policy that follows the recommendation of the audit report.

Student Credit Cards
Procurement cards issued to student organizations would be canceled in order to comply with FASOM.

Chapter 2: Equipment

Monitoring of High-Risk Minor Equipment

Develop policies and procedures for monitoring and controlling high-risk minor equipment items.

OSU has policies on equipment use described in the Property Management Handbook. While the handbook does not specifically address "high-risk" items, OSU has a policy for minor equipment in place. Departments are required to maintain an internal list of equipment valued from $500 to the capital threshold, with consumable supplies estimated based on a Data Warehouse query on certain account codes calculated for an average on-hand value. The departments are asked to submit a copy of their minor equipment list to Property Management at year-end, not every five years, as indicated in the audit report. There have also been numerous meetings and training sessions to distribute information on OSU's policy. In those meetings, there has been discussion of multiple methods of maintaining an accurate list.

Periodically review/compare procurement records with inventory records.

At this point in time, we do not have the ability to comply with the recommendation to compare purchasing and inventory records. If we were to digress back to putting minor equipment on inventory, we would lose all the benefits of the $5,000 equipment threshold. In addition, because of the requirements of the Banner Financial Information System, it would require a greatly expanded staff in the Inventory Control Office. As noted we have not experienced increased reports of theft or loss.

Require proof of ownership before processing loss claims.

We have a very firm policy on security that we have strengthened and are enforcing. If departments cannot prove that a disappearance is the result of an actual crime, they will not be allowed to seek reimbursement from Risk Management. Working in conjuction with Oregon State Police, we have also provided a number of training sessions on how to prevent losses. Departments have also been made aware that if an asset is recovered by the police, but we have no record of the serial number or other means of identifying it as OSU property, the police will not release the item to OSU. Departments have been encouraged to mark the equipment with "Property of OSU' tags, paint or mark department names and telephone numbers on minor equipment with indelible ink, or engrave information for identification.

Monitoring of Equipment Used Off Campus

Communicate policies regarding use of equipment off-campus to all departments. Department managers should allow no equipment to be taken off-campus without a completed loan agreement.

The Property Handbook has recently been rewritten and also includes explicit policies on borrowing state-owned equipment. Every department should be aware that equipment may not be removed from campus without a completed formal loan agreement, signed by the department head and filed with Property Management.

Ensure that employees responsible for monitoring the off-campus use of equipment are made aware of the policies.

Departments are advised in the Fiscal Year-End meeting to review loan agreements for faculty and staff whose appointments are terminating. It is also discussed in our annual OSU Training Days seminars. And finally, departments are reminded of the policy at every opportunity through various training sessions and cooperative learning groups.

Attempt to recover university equipment that is in the possession of former employees. Require employees renewing loan agreements to bring in the borrowed equipment to show that it is still in their possession.

The university is currently reviewing this policy and will be making modifications to the existing policy in the near future.

Chapter 3: Payroll

Background

The university's payroll system is the newest module of the SCT/Banner enterprise system. It "went live" January 1, 1999. The audit of the payroll system covered the first six months of the system's implementation. This was also the first six months the university's payroll personnel were fully responsible for the distribution of the university's payroll. Prior to the implementation of the SCT/Banner payroll module, the Oregon University System Controller's Division managed the distribution of payroll for the university.

Substantial improvements in controls over the payroll process occurred since the audit including system enhancements and the addition of staff members..

Controlling the Payroll Process

The university implemented a university-wide employee separations checklist. It is included in this response as an attachment labeled Department/Unit Exit Checklist (Attachment 2). In addition, the university has created an Employee Exit Checklist that is intended to be completed by the terminated employee and submitted to his or her supervisor.

The university still relies on departments to notify the Office of Human Resources of changes in employee pay and of employee terminations. The Payroll department makes changes only upon receipt of completed paperwork from the Office of Human Resources. In our opinion, it is appropriate that the notification be in writing and include authorized signatures.

The report states that during early 1999, the Payroll department did not run many test programs on a regular basis which help detect overpayments. This is a bit misleading in that many testing programs were not created at the beginning of the implementation. All tests available from the OUS Controllers Division were run on a monthly basis right from the start of implementation. Processes were in place to identify payroll overpayments during the period tested for this audit; however, payroll staff was not available to carry out the recovery of these overpayments.

The university will likely never eliminate overpayments entirely because the university requires that changes in pay or terminations of employees will not be processed without completed documents with original authorizing signatures. Management will continue to seek ways to reduce the number of overpayments. However, during the same six-month period in the subsequent year (January 1– June 30, 2000), the number of overpayments decreased by 28%, representing a 15% decrease in overpayment cost.

Collecting Overpayments in a Timely Manner

Collections on overpayments to classified personnel are limited by the negotiated agreement with the bargaining unit to 5% of an employee's pay each month unless otherwise specifically agreed to by the employee. Recovery of overpayments has improved since the time period of the audit. Collections of overpayments made during the period January 1–June 30, 2000, are 88.2% as of mid-September, an increase of approximately 8% from the prior year as of December of that year. We have also implemented new collection procedures for overpayments.

The current collection procedures are as follows:

- Notification is sent to the department, or received from department.

- Overpayment amount is calculated.
- File is created.
- Notification letter sent to employee with payment calculation and an Overpayment Acknowledgment form (see Attachment 3). Form requires employee to either agree with overpayment statement or to disagree, and to agree to a form of repayment and to sign the agreement.
- (Disagreements regarding overpayments are resolved through discussions with Payroll and departmental personnel along with the employee.)
- If no response is received to the letter after a month, a second letter is sent.
- If no response is received to the second letter after a month, the account is referred to the Collections Department in Business Affairs.

We believe that these procedures follow the recommendation of the audit report.

Chapter 4: Surplus Property

<u>Separating Property-Related Management Duties</u>

Consider changing the organizational structure or staffing of the Property Management section so that different individuals direct and control the related functions of purchasing, inventory control, and surplus property disposal.

The current structure is consistent with the goals of the university and represent cost-effective and efficient business practices. Policies, controls, and procedures are established and reviewed on a regular basis to insure compliance.

Present Structure is:

Assistant VP for Finance & Administration ***oversees***

Department Director ***oversees***

Purchasing Manager+Surplus Property Supervisor+Inventory Property Coordinator

The present management structure clearly separates management responsibilities between the director's position and the management of the three separate positions under the director's span of control.

<u>Eliminating the Appearance of Conflicts of Interest</u>

Cancel OSU's auctioning contract with the manager of Property Management section to eliminate the appearance of a conflict of interest.

While the current structure is consistent with our goals of maintaining a cost effective and efficient operation, management has chosen not to renew the auctioning contract of the manager of the Property Management Department and will include these duties in the employee's job responsibilities with a corresponding increase in salary.

Establish a policy prohibiting Surplus Property employees, their relatives, and persons acting on their behalf, from purchasing surplus property items.

Our current policy was refined in July 1999 to restrict employee purchases, allowing them only at open competitive purchases (auctions). At public auctions, the items are available to the public for pre-auction inspection for 7.5 hours. This is more than adequate to eliminate any "inside information advantages" an employee may have.

We are confident our employees go out of their way to give whatever information they have about a particular item to the customer. We will continue to monitor and review this policy.

Establish procedures for contact bid sales to ensure that all property sold in this manner is advertised to the public for a predetermined time period to ensure adequate market exposure.

We have made changes to ensure adequate market exposure is obtained and the return is appropriate.

<u>Supporting Documentation</u>

Maintain documentation to support all sales, including on-line transactions and exchanges directly from a university department to a buyer.

Due to staff turnover and software problems, some documentation may have been missing. These issues have been addressed and corrected.

We do not put the information into our surplus data base when a department sells or exchanges items with another department. This information goes through inventory to move the OSU inventory numbers from one department to another.

Maintain a record of all bills of sale.

A Bill of Sale (BOS) number is created each time an item is put on the free table, recycled, retained, tagged in error, or donated. These BOS's are not printed out, but are indicated on the SPD's.

Ensure that all items designated as surplus property, including their location prior to sale, are recorded in the inventory database.

It would not be cost effective to number each individual item on a pallet. The original paper, Surplus Pickup Request (SPR) indicates that we have "lotted" the items together, but does not show on the Surplus Property Disposition (SPD). We have asked the departments to put the number of items in parenthesis, instead of writing the word "monitor" fourteen times. Example: Monitors (14).

It is not clear whether by "location prior to sale," you are addressing interest of the originating Department or that the item is in our warehouse prior to sale.

Account for all items received, sold, and redistributed. Record the number of items included in lots received. Record the number of items included in lots sold or redistributed.

It would not be cost effective to number each individual item on a pallet; therefore, estimates will be used.

<u>Requirement to Offer Surplus Property to Public Agencies and Not-for-Profit Organizations</u>
Notify all Oregon public agencies and qualified not-for-profit organizations of the availability of surplus university property.

Now that DAS has provided us with an electronic list, we will increase our market exposure. We have also recently shared links with DAS to increase the marketability of both groups. We will continue to administer our surplus property program in a market-oriented manner. We are extremely proud of our Surplus Property program and its mission to redistribute as much material as possible within the approved system prior to making it available to the public. We have excelled at creating niche markets within school districts and not-for-profit organizations within the local area.

Establish a review and response period that will provide public agencies and not-for-profit organizations a reasonable amount of time to respond to notifications before surplus property is offered for sale to the general public.

We have three email groups which provide notice of public events. One is for public use and two are dedicated to departmental, public school, and non-profit uses. The combined total is around 1,000 persons. Notice is sent out for all public sales and departments are notified one week before the event. In addition, our web site is easy to use, easy to find, and includes a "search in stock" option that few other surplus organizations offer to their clientele at this time.

Chapter 5: Transportation Services

Background

In July of 1999, the OSU Motor Pool was transferred into the Facilities Services Department. As part of this reorganization, an in-depth internal review of the Motor Pool operations was completed. Business practices were reviewed, rental rates were evaluated, and customers were surveyed. From this review, several changes were implemented. In addition, programs were initiated to market the use of motor pool vehicles, including development of promotional brochures and a name change to Transportation Services.

Utilization of Fleet Vehicles

We agree with the auditors that far too many employees and students use other means of transportation for university business instead of vehicles from Transportation Services. However, we do not agree with the statement that only some of our employees and students are satisfied with the services provided by Transportation Services, and the corresponding implication that this dissatisfaction is the reason why these individuals are not using Transportation Services vehicles. A survey of our customers that was completed in March 2000 indicated that most users are satisfied with our services. The dissatisfaction comes from customers that had a specific incident which they felt was not handled correctly, or from an overall perception that Transportation Services is a department that is policy driven, not customer driven. Most of these policies come from DAS rules regarding the use of state vehicles. We will work toward achieving a greater utilization of our vehicles by improved customer service and competitive rental rates.

Consider Reducing the Number of Passenger Vehicles

We appreciate the fact that the auditors realized our vehicle rental business here at OSU is not constant. For example, in a month such as December, our daily rental lot is full of cars and vans. However, come June, we are hard pressed to provide enough vehicles to meet the demand. We are working aggressively to discover a fleet size estimation model that accounts for such variation between peak and non-peak times. The 775 miles per month established by HB3705 currently only applies to sedans and station wagons. HB3705 allows DAS to establish the six-month reporting period on which the 775 mile limit is based. Currently, DAS is using the period of April through September and this allows us to take advantage of our busy time. We have currently updated the computer tracking system that records the mileage each vehicle is driven each month and are again using this report to distribute usage of our vehicles where possible. The latest report to DAS covering the six-month period from April through September 1999 indicates that of the 68 passenger vehicles to which HB3705 applies, we had 5 that did not make the 775 mile limit. We intend to remove these vehicles from the fleet.

We agree the 775 mile minimum per month has value as a benchmark for sedan usage. However, this limit would present a challenge to our employees if applied to other types of vehicles. The arguments for establishing the fleet size based on non-peak usage assume that additional vehicles are easily obtained if needed. We have found that this is not the case, especially for passenger vans and trucks. There have been times when we were unable to locate a needed vehicle and an employee was forced to go without, even though we expanded our search well beyond the Corvallis area. We acknowledge that reducing the fleet size would save in operation costs. This is because less mechanic time would be required to maintain the fleet and we would also have a smaller vehicle replacement fee to be paid into the vehicle reserve. However, a smaller fleet would also limit our revenue to some degree. Now that it appears Transportation Services has turned the corner and is no longer operating in deficit, a smaller fleet size would only have a negative impact on our campus customers we are trying to serve. We will explore other sources of vehicles such as passenger vans, so that if we reduce the size of our fleet we can have a cost-effective method of meeting the needs of our customers.

Considering Total Cost of Ownership Before Buying Used Vehicles

We agree with the observation that newer vehicles are going to attract users. We also agree that long term operating costs will be lower with a newer vehicle. However, what the auditors did not mention is the length of time it takes to obtain a new vehicle. Most of the used vehicles cited by the auditors were purchased to meet a specific customer need. These customers were not willing to wait the 3 to 6 months that it normally takes to obtain a new vehicle. Most of the used vehicles cited by the auditors were also placed in our long-term rental program. Vehicles in this group are typically older and rented at a lower rate. The departments who use these vehicles are not willing to pay the higher rates for newer vehicles. Our current vehicle replacement plan guidelines state that only new vehicles will be purchased. Exceptions to this guideline are to be approved by the Facilities Services Assistant Director, and a document indicating the justification and cost analysis will be kept on file for each used vehicle purchased.

Establishing Rates Based on Actual Costs

The last time Transportation Services raised its rates was August 1997. This was done in response to the State Motor Pool raising its rates. This last fiscal year, 1999-2000, was the first time Transportation Services ended a year with a positive balance for the last 8 years. Transportation Services has tried to deal with these deficits by reducing staff and reducing the fleet size. A rate comparison study was done in October 1999 as part of the executive review and report that was completed when Transportation Services joined the Facilities Services Department. This comparison looked at the rates for the various vehicle types in relation to the rates charged by the State Motor Pool and Enterprise, a local car rental company, for both daily and monthly rentals. This report was shown to the auditors, but was not included in their evaluation because it was done after their audit period. We also completed another evaluation of our rate schedule in September 2000. We will be proposing rate adjustments that will bring our rates in line with the State Motor Pool and with our local competitors. These rate adjustments are based on the vehicle rental activity of last year and the projected operating costs for this year.

Applying Rates Equitably

It is true that there were some inconsistencies between what was being charged as the long-term commercial rates for vehicles of equal type and age, even within the same department. Transportation Services is correcting these differences as they are found. We continue to feel there is value to our long-term commercial rental program and the associated lower rental rates. Departments should be given a financial incentive to commit to a long rental period. Also, the vehicles that are typically in this program are older and fit the needs of the renting departments. When the new rate adjustments are implemented, we will assure that the renting rate for a specific type and age of vehicle is consistently applied to all renters.

Oversight of the Fuel Inventory

During the audit, there were three methods that were used to record the amount of fuel that is used from the large underground storage tank at Transportation Services. We have corrected a couple of problems with these methods. The first is that we have discontinued using the dipstick. This method is rather old and prone to misreading and recording error. We have also improved the log sheet by better defining the "diff" column so that it is clear that this is the difference between the pump readings and the electronic monitor readings. We are now using the electronic monitor readings as the primary method to track fuel inventory. Because of expansion of the fuel due to temperature and water content, this number will likely vary from the pumped value each day, but certainly not more than 20 gallons unless there is a leak or theft. We have contacted the manufacturer of the monitor in order to determine if this 20-gallon fluctuation is a reasonable limit. Once a tolerance limit is established, we will investigate and document all times when this limit is passed. We will continue the existing check between pump readings and tickets billed to further reduce the possibility of theft. Finally, although the pumps are old, their fuel meters are routinely calibrated. Newer pumps would add electronic sophistication to fuel usage validation, but at a considerable cost.

Establishing a Reliable System for Recording Fuel Sales

We acknowledge that newer pumps with electronic monitoring of fuel dispensed would eliminate many of the human errors associated with our current fuel ticket system. Although we plan to explore the cost of new pumps, we anticipate this will represent a significant expenditure. In the meantime, we have made the following changes in how the daily fuel sales are recorded. We will continue to use the individual fuel tickets. The amount of fuel pumped is printed on the ticket by the pump and will not be altered. All of the fuel tickets for a day will continue to be added together for the day and compared against the daily pump readings. Any discrepancies will be investigated and documented. In the past, the tickets that were to be billed to another department were pulled out from the daily batch and given to the accountant. This may have been why it appeared that on some days the amount of fuel pumped was greater than the total on the fuel tickets. Now, a copy of every fuel ticket for the day will be kept in the daily fuel batch file and these tickets will be kept for at least two years.

Control of Building Keys

A large number of keys to the various doors and padlocks at Transportation Services have been issued. We are in the process of reviewing this list with the Key Shop. We will retrieve and reassign keys as appropriate. We will also rekey if necessary.

Developing a Usable Fleet Management Database

Transportation Services is using FleetAnywhere. This is an equipment management computer program designed for vehicle fleets. It is the second generation of a program developed by Prototype, Inc. The state motor pool, along with other state agencies such as Forestry, ODOT, and State Agriculture use the FleetAnywhere program. Transportation Services was using the first version (EMS) but switched this year to FleetAnywhere because Prototype was no longer supporting the EMS version. The switch has not gone as smoothly as hoped. FleetAnywhere has strong maintenance and reservation modules, but the accounting module has not interfaced well. We have worked with the State Forestry Department and they have provided training for some of the Transportation Services employees. We intend to fix the accounting interface problems with FleetAnywhere and develop accounting reports that are accurate and reliable.

Maintaining Transaction Records

Parts Purchasing Records - After reviewing the parts purchasing and inventory records, the auditors were unable to locate documentation regarding the purchase of 11 items. Transportation Services was able to obtain the documentation on all but three of these items and provided this to the auditors. The problem appears to be that although Transportation Services enters the parts into the inventory data log, they send the original invoice to Accounts Payable for payment. We have had a number of individuals working the accounting function for Transportation Services and the value of keeping hard copy records was lost. Never the less, we have modified our filing system so that we will keep a hard copy of all parts invoices on file for at least two years.

Vehicle Disposal Records - Following their June 8th meeting, the auditors asked for documentation related to the disposal of 3 vehicles. Transportation Services was able to locate and provide a copy of the surplus property bill of sale on one of the vehicles. Of the other two, one was a boom truck that was transferred to Facilities Services, and the other was a truck/van that was transferred to Surplus Property. Transportation Services was not able to locate a copy of the transfer documents. As with parts purchasing records, we are now keeping the hard copies of all vehicle disposal records on file for at least two years.

Revising the fee on Fuel Sales

Transportation Services did not charge users for federal gasoline tax. The bill from the Voyager credit card does contain a tax adjustment credit for the federal gas tax. The rebilling system that was in place during the audit used the amount indicated for federal gas tax as a service charge for the handling of the billing process by Transportation Services. It does appear that this was causing some confusion, as it looks like Transportation Services was billing departments for the federal gas tax, which is not the case. Transportation Services has modified this practice and now adds a $1 handling fee instead.

Chapter 6: Relationship With Foundation

The OSU Foundation, Inc. is a legally separate, 501 (c) (3) corporation that solicits, receives, invests and disburses gifts for and on behalf of the university. Most of the auditor's findings concerning the relationship between the university and the OSU Foundation, Inc. are founded on the premise that the university and the OSU Foundation, Inc. are inseparable, and therefore all funds in that private corporation are to be treated as public funds. To the contrary, OSU maintains that the OSU Foundation, Inc. funds are private, and not subject to state audit. The OSU Foundation, Inc. contracts annually for its own audit, as do most private corporations. Its audit report and its annual report of activities are made public, available to anyone who requests them.

Recording and Reporting all Transactions With the Foundation

OSU already has adequate procedures for processing and recording all university transactions involving Foundation funds. The university disagrees that its accounting practices conflict with any basic accounting principles. Oregon University System will consider adding a footnote to the University System financial statements that describes the aggregate total in gift funds applied on behalf of the university by the OSU Foundation, Inc.

Defining Allowable and Unallowable Uses of Unrestricted Gift Funds

OSU Foundation, Inc., not the university, is responsible for determining the appropriateness of its expenditures. These funds are private, not state monies.

The university recognizes the value of expenditures for recognition and public outreach to the general public, donors, faculty and staff. Even so, only a minimal amount is expended for that purpose. The figure is less than 1.5% of the $18.7m expended on behalf of the university. The other 98.5% is expended on scholarships, programs, services and facilities.

OSU has interest in showing care and compassion for its employees and donors. Sending flowers at the loss of a family member, for example, is a very reasonable gesture and expenditure of OSU Foundation, Inc. funds. Sponsorship of a table at a Boy Scout dinner is appropriate donor cultivation and public outreach, and has potential impact on student recruiting.

Establishing Procedures For Authorizing and Reporting the Use of Unrestricted Gift Funds

Adequate procedures are in place for gift funds which are booked through the university. It is the responsibility of the OSU Foundation, Inc. to determine the amount and nature of documentation it requires for expenditures of its funds.

Ensuring Prior Approval and Adequate Record Keeping of Foundation-Paid Employee Benefits

For the case cited, administrators in Intercollegiate Athletics initially were not aware of the need for written Presidential approval. When made aware by the President's Office of the requirement, written approval was sought and given. All of this occurred in 1997, prior to inception of this audit.

The university will continue to ensure that Foundation-funded benefits will be appropriately reported.

<u>Discouraging Departments from Overdrafting Their Foundation-Funded Accounts</u>
OSU may not earn interest on state funds. The OSU Foundation, Inc. earns interest on its monies. This practice of expending public resources before the interest-generating funds maximizes the total resources that are available to further the university's mission. To follow the auditor's recommendation would financially hinder the university. One solution would be to legislatively authorize the university to earn and retain investment interest on its public funds.

<u>Discontinuing Limited Signature Authority over Foundation Accounts</u>
OSU concurs with the auditor. The university supports the independence of the OSU Foundation, Inc., and to eliminate any appearance of control, the President's signature authority was removed.

<u>Improvement of Gift Reporting</u>
The OSU Foundation, Inc. issues and provides to the university an annual report that lists all donors. Aggregate data about gifts are included in the corporation's audited financial statements, which are public. We believe these reports comply with the intent of the Board rule. In addition, the Vice President for Advancement monitors on a daily basis a report of all gifts in excess of a thousand dollars.

<u>Maintaining an Accurate and Complete Contract With the Foundation</u>
A contract between the university and the OSU Foundation, Inc. was in effect from June 1, 1996 to May 31, 1999. The subsequent amendments extended the contract to November 30, 1999. During this period the responsibilities of the OSU Foundation, Inc. and the university Development Office were in transition. A new contract was executed at the beginning of FY 2001 for three months, to allow extension of the relationship while additional changes were negotiated. A contract for the last nine months of this fiscal year was executed at the end of September 2000. The FY 2001 contracts referenced are fully compliant with the auditor's recommendation, and were reviewed by the Oregon State Department of Justice.

<u>Establishing Guidelines For Approving Gift Restrictions</u>
A university-wide approach to guidelines for approval of gift restrictions is an idea worthy of consideration. OSU will review the potential impacts of this recommendation and consider whether to implement it.

Chapter 7: Other Matters

Computer Access Restrictions

The university has implemented, since the end of fieldwork, a university-wide employee separations checklist. It is included with this response as an attachment (Attachment 2). This checklist includes an item which requires the cancellation of the terminated employee's access to the university's SCT/Banner system.

We believe that these procedures follow the recommendation of the audit report.

Encouraging Economical Purchasing

Continue exploring ways to provide university departments with commonly-used goods and services at discount rates.

The audit report indicated that departments purchased similar items directly from vendors, which could have been purchased at lower prices through state price agreements. For some products, we can save much more by using OSU agreements rather than state pricing. We have our own set price agreements and in many cases, have deeper educational discounts than what we can get through state price agreements, which is more fiscally responsible.

OSU has aggressive pricing from its office supplies and computer contracts. The auditor did not give us enough information to check our sources to see if we could beat the prices quoted through the state price agreements.

The university plans to tender an RFP for internet service provision, which indicates and confirms that we are interested in saving the university money. We do respond to the purchasing needs of our university by setting up agreements for the most commonly used items and services.

Encourage university staff to make acquisitions as economically as possible. Provide department staff with training in the use of state price agreement contracts.

We strongly feel that education is the best way to make sure our policies are adhered to. We take the responsibility to educate seriously and put a great deal of effort in creating training opportunities and written materials.

Every year we have "Training Days". We invite the bookkeepers from across campus to come in and learn about our fiscal procedures at OSU. This is very successful. The issues covered include using price agreements and contracts (from OSU, the state, and other agencies) to obtain the most fiscally advantageous pricing. For some products, we can save much more by using OSU agreements rather than state pricing.

We have a web page that lists our policies and agreements and contains links to the State Price Agreements. We put out brochures, which inform employees of our purchasing requirements and send out a quarterly newsletter with information on the most current contracts and policies. When we learn of violations to our purchasing policy, we take the time to educate the person(s) who have made the mistake.

We are fiscally conscious. We have set up price agreements that allow us to save the university a great deal of money. Some examples are listed below:

- Advertising: discounted 42% off the open rate.
- Software: We save $3.5 million off retail prices for Microsoft products annually.
- Scientific Equipment: Saved over $500,000 off list price (spent $1.4 million)
- Moving Agreements: discounted 57% off list price.
- Hardware agreements: We negotiated a new discount rate of 15% with Dell Computers other computer agreements as well.

In conclusion, we manage our limited resources in a prudent manner to insure our business practices produce highest return for the investment.

ATTACHMENT 1

Guidelines and Procedures For Oregon State University VISA Purchasing Card Program

Oregon State University
VISA Purchasing Card Program
Policies and Procedures

DEPARTMENTAL AGREEMENT

Custodian:	
Budget Authority (Chair/Director/Dean):	
Bill to Address:	
Purchasing Card #:	Department:
Expiration Date:	Primary Billing Index:
Credit Limit: $	

OREGON STATE UNIVERSITY
OREGON UNIVERSITY SYSTEM
VISA PURCHASING CARD AGREEMENT

1. **DEPARTMENT BUDGET AUTHORITY (CHAIR/DIRECTOR/DEAN) RESPONSIBILITES**

a *VISA Card Acknowledgement*: As the Department's Budget Authority, I accept responsibility for the VISA Purchasing Card listed above and agree to the stated credit limit. I have access to all associated policies and guidelines including the Financial Administration Standard Operating Manual-FASOM (www.osshe.edu/cont-div/fasom) and the Oregon State University VISA Purchasing Card Program Policies and Procedures (www.lucre.orst.edu/visa/visacardpur.htm). I understand the rules and guidelines for purchasing card use and recognize that inappropriate usage will result in the revocation or suspension of the departmental VISA Purchasing Card.

b *Assign Custodian:* As the Department's Budget Authority, I have assigned the duties of card custodian TO SOMEONE OTHER THAN MYSELF and I acknowledge the custodian, listed above, as the person who has physical custody of the card. I understand the custodian's duties listed below. I will ensure that the Campus VISA Coordinator in Payables is notified in the event of any custodial changes.

c *Financial Responsibility:* As the Department's Budget Authority, I will review the Monthly Statement Packet as described below and approve the expenditures by ***personally signing*** the Activity Log(s). Rubber stamps or other facsimile signatures are not acceptable. It will be my department's responsibility to collect reimbursement for any inappropriate or personal purchases made by designated departmental users.

2. **CUSTODIAN RESPONSIBILITES**

a *Designated Users:* As Custodian, I may authorize other designated OSU employees as users of this VISA card. All designated OSU employees will read and sign a VISA Purchasing Card Designated User Agreement.

b *Monthly Duties:* An individual statement for each Purchasing Card entrusted to me will be sent monthly by US Bank for reconciliation with support documents and departmental record keeping. Should the statement not be received by the end of the month, I will notify the Bank and Campus VISA Coordinator. If an original charge slip is lost I will circle or highlight the charges on the VISA statement and attach an affidavit signed by the designated user and card custodian. The affidavit will include a description of the item(s) purchased, date of purchase, amount of purchase, and vendor name.

I will maintain a monthly activity log for reconciliation purposes. This can be any internal spreadsheet as long as the necessary data is maintained (see www.lucre.orst.edu/visa/visacardpur.htm for example).

I will distribute charges to appropriate account codes and indexes each month.

I will prepare a ***Monthly Statement Packet***. It will contain the following:

- Monthly VISA statement
- Completed Monthly Activity log, including ***JV number*** and ***departmental approval***
- Supporting documents (receipts, etc.)
- Copy of the *CURRENT* designated user list

The Monthly Statement Packets will be forwarded to Business Affairs on a monthly basis and are subject to audits.

c ***Billing Disagreement or Adjustment:*** In the case of a billing disagreement or adjustment I will work directly with the Bank and/or the merchant/vendor for resolution and make any needed adjustments. If credit is due, I will instruct the merchant to issue a VISA credit memo and I will note the credit on the Monthly Activity Log. I will not request or accept cash back from the merchant/vendor when an item is returned or a credit is due. If I cannot resolve the dispute with the vendor I will complete the Cardholder Dispute Form (www.lucre.orst.edu/visa/visacardpur.htm) within 60 days of the statement date and fax it to the Bank.

d ***Credit Limit:*** Any charge made by the Bank for exceeding the limit will be charged to my department.

e ***Accountability and Procedures:*** I will protect and control the VISA Purchasing Card at all times. I will retain physical custody of the card and will ensure that it is kept in a secure location. **I will not give the card number to anyone except authorized OSU employees who have signed the Designated User Agreement.**

f ***Loss or Theft:*** If the card is lost or stolen I will immediately notify the Manager of OSU Payables by telephoning 541-737-4262. I understand that no consumer protection clause covers the loss or theft of this card and that my department will be responsible for all transactions until such time as a loss or theft is reported to OSU Payables.

g ***Card Ownership:*** I understand that the VISA Purchasing Card belongs to the Bank and I will surrender it immediately when notified either by the Bank or the OSU Payables Manager.

THE PARTIES, BY THEIR SIGNATURES BELOW, ACKNOWLEDGE HAVING READ THIS AGREEMENT, UNDERSTAND IT, AND AGREE TO BE BOUND BY ITS TERMS AND CONDITIONS. EACH WILL RETAIN A COPY FOR REFERENCE. SUBSEQUESNT ADDENDA OR AMENDMENTS WILL BE IN WRITING, SIGNED BY ALL PARTIES, AND ATTACHED HERETO.

CUSTODIAN

Signature: Date:

Printed Name:

BUDGETARY AUTHORITY (CHAIR/DEAN/DIRECTOR)

Signature: Date:

Printed Name:

Rev April, 2000

Oregon State University
VISA Purchasing Card Program
Policies and Procedures

DESIGNATED USER AGREEMENT

Custodian:	
Department:	
Purchasing Card #:	Primary Billing Index:

OREGON STATE UNIVERSITY
OREGON UNIVERSITY SYSTEM
VISA PURCHASING CARD DESIGNATED USER AGREEMENT

DESIGNATED USER RESPONSIBILITES

BY SIGNING THIS AGREEMENT AS DESIGNATED USER, I agree to the terms and conditions below:

a *Authorized Purposes:* I agree to use the departmental VISA card only for purchases which further the business of the state, and in conformance with the rules regarding allowable expenditures. I have access to the Oregon State University VISA Purchasing Card Program Policies and Procedures. (www.lucre.orst.edu/visa/visacardpur.htm)

b *Statutory Compliance:* I understand that making purchases with the VISA Purchasing Card obligates State funds. I recognize my responsibility to comply with ORS 293.295 in so obligating State funds, and to comply with ORS 244.040, the Code of Ethics for State Employees. When in doubt, I will ask myself the following questions to help assure compliance:
i Is this a legal obligation for the State to incur?
ii Is this obligation a responsible and appropriate use of these funds for OSU, OUS, and the State as a whole?
iii Have the goods been received by OSU and did was full value received as requested?
iv Are there adequate budget resources available to incur this obligation?
v Will this obligation pass the public perception test, i.e., would I be comfortable if I saw this transaction written up on the front page of the newspaper?
vi Am I willing to approve this obligation knowing I am fully responsible?

c *Penalties*: **Any inappropriate purchase made by me becomes my personal liability for which I will make immediate and complete reimbursement, including any accrued interest to OSU.** By signing this agreement I authorize OSU to make such withholding automatically from any amount due me by OSU, subject to due process.

I recognize that inappropriate usage will also result in the revocation or suspension of the departmental VISA Purchasing Card.

d *Loss or Theft:* If the card is lost or stolen I will immediately notify the Manager of OSU Payables by telephoning 541-737-4262. I understand that no consumer protection clause covers the loss or theft of this card and that my department will be responsible for all transactions until such time as a loss or theft is reported to OSU Payables.

THE PARTIES, BY THEIR SIGNATURES BELOW, ACKNOWLEDGE HAVING READ THIS AGREEMENT, UNDERSTAND IT, AND AGREE TO BE BOUND BY ITS TERMS AND CONDITIONS.
EACH WILL RETAIN A COPY FOR REFERENCE.

Rev April, 2000

CUSTODIAN

ignature: Date:

Printed Name:

DEP.

PRIMAR BILLING INDEX:

DESIGN ED

ignature: Date: Printed Nam

Signature: Date: Printed Name

ignature: Date: Printed Name

ignature: Date: Printed Name

ignature: Date: Printed Name:

Signature: Date: Printed Name:

ignature: Date: Printed Name:

ignature: Date: Printed Name:

gnature: Date: Printed Name:

Signature: Date: Printed Name

ignature: Date: Printed Name:

Signature: Date: Printed Name:

ignature: Date: Printed Name:

Signature: Date: Printed Name:

Oregon State University
VISA Purchasing Card Program
Policies and Procedures

CARD PURPOSE & SUGGESTED USES

The Oregon University System (OUS) established the credit card purchasing program to provide the rapid acquisition of primarily low dollar value items with significant savings in time. The OUS Financial Management Committee administers the program.

Agencies within OUS have campus coordinators that manage card usage.

Purchasing cards may be used only to purchase goods for the agency. Such purchases must comply with OUS policies governing purchasing and credit card usage.

As stated in FASOM 13.11, VISA Purchasing Cards are designed to promote purchasing efficiency, flexibility, and convenience. The following are typical uses for the VISA Purchasing Card:

- **Office supplies**
- **Software**
- **Teaching and research supplies**
- **Materials for minor repairs**
- **Conference registrations**
- **Subscriptions to newspapers, journals and periodicals**
- **Non Capitalized Furniture**
- **~~Allowable dues and memberships~~** *not allowed on OSU Departmental Purchasing Cards*
- **Reference materials such as books, particularly those purchased from another Country due to exchange considerations**

Other suggested uses include:

- **Laboratory supplies**
- **Housekeeping and maintenance supplies**
- **Computer supplies**
- **Minor equipment and appliances**
- **Publications and reprints**
- **Seminar registrations**

Oregon State University

VISA Purchasing Card Program

Policies and Procedures

PROHIBITED USES

PURCHASING THE FOLLOWING PROHIBITED ITEMS WILL RESULT IN THE REVOCATION OR SUSPENSION OF THE DEPARTMENTAL VISA PURCHASING CARD:

- Personal purchases
- Cash advances
- Inter-departmental expenses
- Rentals / Leases - ie: equipment, rooms, buildings, land, etc.
- Vehicle rental - ie: cars, vans, pickups, trucks, trailers, boats, etc
- Transportation fares - ie: airfares, bus fares, train fares, ferry, etc
- Lodging (lodging room and tax when paid with conference/seminar registration exempt)
- Misc. Lodging charges ie: room service, movies, phone, laundry service, etc.
- Meals
- Food / Groceries
- Alcoholic Beverages
- Entertainment
- Hosting groups and guests
- Gifts, Gift Certificates, etc.
- Awards / Prizes
- Memberships
- Utilities
- Communications
- Capitalized equipment and upgrades
- Weapons / Ammunition
- Selling / Marketing costs
- Fees, Services, and 1099 tax reportable expenses as listed below:

Acct	Description of 1099 tax reportable expense	Acct	Description of 1099 tax reportable expense
20169	Awards & Prizes - non-employee	24510	Laundry & Dry Cleaning
21008	Animal Care, Feeding, & Maintenance	24511	Plant care services
21070	Ag Services-Plowing, spraying	24520	Security service – Patrol & watch services
23080	Utilities & maintenance – non employee	24525	Word-processing services
23501	Equipment maintenance & repairs	24530	Contract Personnel services
23502	Building maintenance & repairs	24535	Broadcast program services - materials
23503	Grounds maintenance & repairs	24545	Dispute / Resolution services
23504	Data processing equipment maint. & repair	24550	Forest Management services & maintenance
23510	Contract maintenance & repair - Equipment	24595	Non-resident Alien professional services
23511	Contract maintenance & repair - Buildings	24599	Other professional services
23512	Contract maintenance & repair - Grounds	24601	Binding
23530	Custodial - non-contract	24602	Duplicating & Copying
23531	Custodial - Contract	24604	Photo services / processing
24001	Equipment - Rentals & Leases	24605	Microfilming / processing
24002	Data processing - Rentals & Leases	24606	Printing & Publishing
24050	Land - Rentals & Leases	24607	Typesetting service
24051	Building - Rentals & Leases	24608	Graphics design service
24052	Housing - Rentals & Leases	24609	Professional photography services
24053	Storage rentals / fees	24610	Video production services
24501	Accounting services	24611	Advertising - Personnel recruitment
24502	Legal services	24612	Advertising - Public relations
24503	Data processing services	24615	Engraving service
24504	Auditing services	24616	Editing service
24505	Performance fees (Entertainment)	24701	Appraisal service
24506	Trustee service	24702	Engineering & Architectural service
24507	Management consulting service	24703	Environmental Laboratory service

Rev April, 2000

Acct	Description of 1099 tax reportable expense
25021	Radiology films
25022	Radiology - procedures & reading
25050	Prosthesis manufacture, fitting, repair
25051	Appliances/Braces manufacture, fitting, repair
25101	Laboratory services, tests, analysis
25108	Drug testing
25110	Hospitalization
25111	Hospitalization - outpatient
25118	Rehabilitation - inpatient
25119	Rehabilitation - outpatient
25120	Medical services
25122	Surgical services
25123	Anesthesia services
25124	General dental services
25127	Physical therapy
25128	Nursing services
25129	Speech & Audiology services
25130	Occupational therapy
25135	Agency Nurse fee
25140	Research subjects
25150	EKG services
25180	Athletic medical insurance reimbursement

Acct	Description of 1099 tax reportable expense
25199	Other Medical / Scientific services
28510	Moving expenses – non-employee
28520	Disbursement of wages to survivor
28530	Voluntary cancel contract academic
28531	Royalty payments
28532	Hiring incentives
28540	Dependent assistance – tuition & fees
28541	Dependent assistance – other – non-employee
28542	Temporary living supplement allowance
28543	Settling-In allowance payment – non-employee
28544	Storage of household goods – non-employee
28546	Cost of living / post-allow - non-employee
28632	Non OUS participant – Non resident alien
28636	Non OUS participant – No receipts
39712	Employee travel - taxable
39713	Dependent of employee travel - taxable
39742	Non-employee travel - taxable
39743	Dependent of non-employee travel - taxable
40602	Legal service - capitalized
40612	Advertising - capitalized
40618	Appraisal service - capitalized
40619	Engineering & Architectural service-capitalized

Oregon State University
VISA Purchasing Card Program
Policies and Procedures

REVOCATION & SUSPENSION PROCEDURE

All users of a Departmental VISA Purchasing Card are required to sign a "Designated User Agreement." The agreement states that the card is to be used only for appropriate purchases as stated in the Oregon State University VISA Purchasing Card Program Policies and Procedures (www.lucre.orst.edu/visa/visacardpur.htm)

By signing the agreement users recognize that inappropriate usage will result in the revocation or suspension of the departmental VISA Purchasing Card.

Departments will be contacted regarding inappropriate use and violations will be logged. The recording of such violations may be protested by contacting the OSU Payables Manager.

Monthly Statement Packets will be audited for required documents and for the usage of the VISA Purchasing Card by OSU Payables.

Re-instatement of charging privileges will be at the discretion of Business Affairs - after consultation between the OSU Payables Manager, the Department Budget Authority, and the Director of Business Affairs. (Kathy.Abernathy@orst.edu)

Immediate Revocation of the VISA Purchasing Card will result if:

A. ***Unauthorized users allowed access to the VISA Purchasing Card***

B. ***Airfare purchase appears on any statement***

C. ***Other Travel related expenses such as vehicle rental, transportation fares, lodging, meals, entertainment, hosting groups & guests appear on any statement*** - OSU Employees have access to a VISA Corporate Card for such purchases. Lodging room and tax only when paid with conference / seminar registration exempt.

D. ***Alcoholic Beverage(s) charges appear on any statement*** - Special handling of such purchases is required, contact the OSU Payables Manager for instructions.

E. ***Capital Equipment is purchased with the card*** - Equipment purchases over $5,000.00 ($1,500.00 for Auxiliaries) need to go through OSU Purchasing, contact the OSU Payables Manager for instructions.

Revocation of the VISA Purchasing Card will result after the third recorded violation of:

A. ***Purchase of a prohibited item*** – complete list available on-line at:
www.lucre.orst.edu/visa/visacardpur.htm

B. ***Failure to distribute monthly charges by Journal Voucher*** – see Department Agreement

C. ***Failure to provide monthly packet to Business Affairs*** – see Department Agreement

D. ***Failure to provide signature of Budget Authority in monthly packet*** – see Department Agreement

E. ***Failure to provide ALL support documentation in monthly packet*** – see Department Agreement

F. ***Failure to provide current User List*** – see Department Agreement

AFFIDAVIT OF MISSING DOCUMENT

I acknowledge that an original receipt for the following item was unavailable or lost. Please accept this document in lieu of a receipt.
No other form of reimbursement will be requested for this item.

______________________________________ _______________
(Item purchased, include quantity) ($ Amount)

______________________________________ _______________
(Vendor Name) (Date)

____
(Printed Name)

____
(Signature)

____
(Date)

Item purchased with Departmental Visa Purchasing Card No. ____________________

Budget Authority Approval___________________________ Date __________

* *

I acknowledge that an original receipt for the following item was unavailable or lost. Please accept this document in lieu of a receipt.
No other form of reimbursement will be requested for this item.

______________________________________ _______________
(Item purchased, include quantity) ($ Amount)

______________________________________ _______________
(Vendor Name) (Date)

____
(Printed Name)

____
(Signature)

____
(Date)

Item purchased with Departmental Visa Purchasing Card No. ____________________

Budget Authority Approval___________________________ Date __________

April, 2000

Oregon State University

VISA Purchasing Card Program

Policies and Procedures

Frequently Asked Questions

Q: Can I use the purchasing card to purchase a computer?

A: Yes, as long as the purchase price does not exceed the capitalization threshold ($5,000.00 for general funds, $1500.00 for funds having an equipment reserve, or a dollar value stipulated in a grant or contract that would constitute capital equipment.)

Q: Can any travel-related expenses be charged to a purchasing card?

A: Use of a purchasing card is prohibited for travel costs (39000 account codes) with the exception of conference hotel.

Q: Can I charge Internet or Network Services provided by a non-University vendor on my purchasing card?

A: Yes, include users name in log.

Q: Can I use my purchasing card for emergency repairs to a motor pool vehicle while working "on the road" for the University?

A: Yes; and those charges must be documented and verified by motor pool who will reimburse the department for those costs.

Q: What constitutes a "Personal Item"?

A: Payables has compiled a list of items that are to be regarded as personal and therefore may not be charged against State or Federal funds:

- Alcoholic Beverages
- Business License fees
- Candy, Gum, Mints, etc.
- Cards: Greeting, Holiday, Birthday, Thank You, etc.
- CDs, Cassettes, non-text Books, etc.

- Clothing, Hats, Accessories, etc.
- Coffee room supplies: Coffee, Tea, Cream, Sugar, etc.
- Dues, Memberships, or Professional Certifications belonging to an individual
- Flowers - see FASOM 13.01 (F) (2) for exceptions
- Gifts, Gift Certificates, Gift Wrap, Gift Wrap supplies - see FASOM 13.01 (E) (3) for exceptions
- Gratuities, Tips, etc. - see FASOM 11.02 (A) (2) for exceptions
- Insurance on Rental Vehicles (LDW, PAI, etc.) for employees renting in the U.S., U.S. territories, or Canada
- Personal Use Items: Aspirin, Tylenol, Cold Medications, Allergy Medications, Kleenex, Tissues, Deodorant, Shampoo, laundry, etc.
- Prescription Glasses or Goggles
- Reimbursement to individuals for deposits on refundable containers
- Replacement or Retrieval expenses of lost keys

Business Affairs Home | Payables Home | Accounting Policies
Payables Personnel | Auto Pay Vendors | Purchasing Card |

Last Updated: 04/19/00
Contact: Heather.Butler@orst.edu

ATTACHMENT 2

Department/Unit Exit Checklist

OREGON STATE UNIVERSITY

DEPARTMENT/UNIT EXIT CHECKLIST

This checklist is intended to help supervisors or departmental personnel staff to complete an employee's exit process. Check off each area as applicable. Submit to Office of Human Resources within one-week following the employee's departure

Employee: ______________________________

ID # ______________________________

Date Completed

______ **LETTER OF RESIGNATION OR COMPLETED TERMINATION FORM TO OHR**
Refer to HRIS Website for Termination Form

______ **FOR THOSE TERMINATING ANY TIME OTHER THAN PAYDAY, SUBMIT A TERMINATION PAY REQUEST FORM TO PAYROLL**
Refer to HRIS Website for Termination Pay Request Form
http://osu.orst.edu/admin/hristeam/payterm.fml

______ **CANCEL BANNER ACCOUNT ACCESS** *(Normal processing to turn off access takes several days. Please coordinate cancellation of access accordingly.)*

Complete appropriate Banner/Data Warehouse Access forms:

- *HR Banner Access http://osu.orst.edu/admin/hristeam/hraccess.fml*
- *HR Data Warehouse Access http://osu.orst.edu/admin/hristeam/whaccess.fml*
- *FIS Banner Access http://www.lucre.orst.edu/forms/payables/omni/acc.fml*
- *FIS Data Warehouse Access http://www.lucre.orst.edu/dwform.fml*
- *SIS Banner/Data Warehouse Access http://www.orst.edu/dept/isteach/isclass.html*

______ **OBTAIN EMPLOYEE'S FORWARDING ADDRESS OR DIRECT THEM TO EMPLOYEE ON-LINE SERVICES**
http://infosu.orst.edu/

______ **CANCEL OSU EMAIL ACCOUNT, IF APPLICABLE**
Contact department/unit database administrator

______ **CANCEL PURCHASING CARD AUTHORIZATION**
Contact Business Affairs Payables Office at 737-4262

______ **CANCEL VISA CORPORATE CARD**
Contact Business Affairs Payable Office at 737-4262

______ **CANCEL TELECOMMUNICATIONS CARDS / PASSWORDS**
Contact departmental telephone coordinator for termination of access

______ **VERIFY KEYS WERE TURNED IN**
Contact Key Shop at 737-3565

______ **COLLECT OFFICE EQUIPMENT LOANED OUT TO EMPLOYEE**

______ **EMPLOYEE WHO WORKED WITH CHEMICALS**
Direct to Environmental Health and Safety for exit information at 737-2273

______ **COLLECT OUTSTANDING PETTY CASH AMOUNTS DUE OR TRAVEL ADVANCES**

______ **INACTIVATE OSU ID CARD**
Contact OSU ID Card Center at 737-2493

Form completed by: ______________________________ Date: ____________

OREGON STATE UNIVERSITY

EMPLOYEE EXIT CHECKLIST

This checklist is intended to help you complete the exit process. Check off each area as applicable and return to your supervisor prior to your departure.

Date Completed

__________ SUBMIT LETTER OF RESIGNATION OR SIGN TERMINATION FORM

__________ COMMUNICATE WITH DEPARTMENTAL/UNIT PERSONNEL CONTACT REGARDING UNUSED VACATION BALANCE, IF APPLICABLE

__________ SIGN FINAL TIMESHEET AND SUBMIT TO YOUR SUPERVISOR

__________ RETURN OFFICE EQUIPMENT BORROWED FROM DEPARTMENT OR UNIVERSITY

__________ PAY ANY OUTSTANDING PETTY CASH AMOUNTS DUE OR TRAVEL ADVANCES

__________ PROVIDE DEPARTMENT/UNIT WITH FORWARDING ADDRESS OR CHANGE MAILING ADDRESS THROUGH EMPLOYEE ON-LINE SERVICES

http://www.infosu.orst.edu

__________ CHANGE CHECK DELIVERY, IF NEEDED *(provide information to departmentlunit personnel contact or Payroll Office prior to termination)*

__________ RETURN OSU CORPORATE CHARGE CARD TO DEPARTMENT/UNIT PERSONNEL CONTACT

__________ CONTACT OSU BENEFITS OFFICE REGARDING CONTINUATION OF MEDICAL BENEFITS UNDER COBRA, IF APPLICABLE

__________ CONTACT PARKING SERVICES ABOUT POSSIBLE REFUND OF PARKING PERMIT FEE, IF APPLICABLE

__________ RETURN BOOKS OR MATERIALS CHECKED OUT FROM OSU LIBRARY

__________ RETURN DEPARTMENT/UNIT/OSU BUILDING KEYS TO THE OSU KEY SHOP

OSU Key Shop
Facilities Services
5 10 SW 15th

__________ IF YOU WORKED WITH CHEMICALS:

Contact Environmental Health and Safety for exit information at 737-2273

OHR Employee Exit Checklist 3/00

ATTACHMENT 3

Oregon State University Payroll Office Acknowledgement of Overpayment

Oregon State University Payroll Office

Acknowledgement of Overpayment

I, ____, SSN __________________
(Name)

of ____
(Street Address) (City) (State) (Zip Code)

Phone (____) _______________

acknowledge that I have received a statement showing that I was overpaid a net amount of _________________ for the month of ___________, 2000.

____ I agree that this statement is correct and wish to repay the net overpayment amount by the following method:

Personal Check

Withholding from future pay

____ I do not agree with the content of the overpayment statement or have questions. (In this instance, please call OSU Payroll Department, 737-0573.)

____
Signature

____
Date

Attachments: OSU Overpayment Policy
Section 11, Article 22—Salary Administration (OPEU Employees only)

AUDITING TO PROTECT THE PUBLIC INTEREST AND IMPROVE OREGON GOVERNMENT

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

DIRECTORY OF KEY OFFICIALS

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

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

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

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

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

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

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

STATE OF OREGON
THE UNION
1859