

AUDIT REPORT

Water Resources Department: Change of Director Audit



Bill Bradbury, Secretary of State
John Lattimer, Director, Audits Division

Summary

PURPOSE

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

RESULTS IN BRIEF

We determined that the former Water Resources Department director returned all fixed assets assigned to her and that the department had terminated all access to state computer systems and property. However, our review identified improvements that could be made in the department contract management, director travel expense reimbursement, delegated authority, and vacation payout processes.

RECOMMENDATIONS

We recommend that the department regularly review and update, or develop written policies and procedures for significant business processes.

We recommend that the department work with the Department of Administrative Services and the Department of Justice to determine proper recourse for the questioned payments identified by this audit.

We recommend that the department ensure that leave and payroll policies are clearly understood by management, personnel, and payroll officers.

DEPARTMENT ACCOMPLISHMENTS

In response to our findings, the department has started developing a process to ensure that the contract administrator will review all invoices prior to payment. The department also is developing a new checklist to be followed for all future employee separations, and strengthening vacation payout procedures.

DEPARTMENT RESPONSE

The department generally agrees with the recommendations.

Audit Results

Questionable Vacation Payouts

During our review, we identified two consecutive years in which a division administrator received payment for unused vacation leave. The two questioned payments amounted to approximately \$2,705.

According to State Policy 60.000.05 (6), employees in executive and management service shall not accumulate vacation leave in excess of 350 hours. An employee who has accrued the maximum vacation leave hours authorized may request use of

vacation leave to prevent its loss. An appointing authority, upon determining that granting vacation leave is not appropriate, may authorize cash payment for not more than 40 hours. Vacation leave for which payment is made shall be cancelled.

We found that the department did not follow either state or department policy. We reviewed documents that showed the requests for and approvals of the vacation payouts. Documentation of employee requests and the director's denial of vacation leave were absent.

Without proper documentation of the employee's request for vacation leave and the director's

denial of the vacation leave request for cause, we question the need for the payments in lieu of time off.

We identified the following payments for which documentation was incomplete:

- On February 3, 2000, a request was approved for payment in lieu of taking 40 hours vacation leave. The amount of vacation payout was \$1,398.
- On May 17, 1999, a request was approved for payment in lieu of taking 40 hours vacation leave. The amount of vacation payout was \$1,307.

We recommend that the department:

- Follow department policies and procedures specific to vacation payouts that will help assure that the department is compliant with state policy 60.000.05(6);
- Work with the Department of Administrative Services and the Department of Justice to determine proper recourse for the questioned payments identified by this audit; and
- Ensure that leave and payroll policies are clearly understood by department management, personnel, and payroll officers.

Process Improvements

The department's internal controls and policies and procedures for significant business processes could be improved.

Our review of contracts, travel claims, and delegated authority in connection with our change of director audit, identified the following exceptions:

- Through the review of seven personal service contracts, we noted that the contract administrator did not sign off work completed before payment of one invoice. The department does not have written guidelines (policies and procedures) for this process.
- Through our testing of the former director's travel claims, we noted that the former director submitted expense reimbursement requests without proper approvals. Our review included five reimbursements, of which three did not have proper authorization. The total amount for the three claims was \$952. The department's fiscal staff advised us that because she was

director she did not normally get anyone else to approve her claims. The department does not have written guidelines (policies and procedures) for this process.

- The new director began working on July 10, 2000. The current delegations of authority on file are those of the former director. As of October 4, 2000, new delegations of authority have been signed by the director, but have not yet been completed by employees. The department does not have written guidelines (policies and procedures) for this process.

We recommend that the department regularly review and update, or develop, written policies and procedures for significant business processes as necessary, especially in the areas of contracting, travel reimbursement, and delegated authority.

Objectives, Scope and Methodology

This audit was conducted in compliance with Oregon Revised Statute 297.210, which requires the Audits Division to perform an audit or review when the executive head of a state department leaves that position for any reason. Our audit objectives were to assure that the Water Resources Department took appropriate actions to protect state assets upon the former director's separation.

Specifically, we:

- Determined whether the former director's access to state and department automated systems was terminated upon her resignation;
- Determined whether state assets in the custody and

control of the former director were returned to the department upon her resignation;

- Reviewed travel reimbursement requests filed by the former director, and all travel expense reimbursements that she authorized during her final six months of service to determine whether reimbursements complied with state travel rules, and were authorized, proper, adequately supported, and reasonable;
- Reviewed payroll disbursements to the former director to determine if there were any unusual payments during her final six months of service. We also determined whether the former director was properly removed from the department payroll;
- Reviewed payroll disbursements for those employees whose timesheets were approved by the former director to determine if there were any unusual payments during the six months prior to the former director's departure; and
- Reviewed personal service contracts that the department entered into during the director's final six months of service, to determine whether the former director entered into any related party or otherwise questionable contracts.

We conducted this audit according to generally accepted government auditing standards. We limited our review to the areas specified above.



Oregon

John A. Kitzhaber, M.D., Governor

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November 13, 2000

John Lattimer, Director
Audits Division
Office of the Secretary of State
255 Capital St. NE, Suite 500
Salem, OR 97301

Dear Mr. Lattimer:

We have reviewed the draft audit report on the change of director for the Water Resources Department. We appreciate the courtesy and professionalism of the audit team and are using the report as a tool for improvement in the Department's business procedures and practices.

The report identifies several opportunities for improvement in the Department's contract management, delegated authority, travel expense reimbursement, and vacation leave payout processes. The Department has used the recommendations contained in the audit to make these improvements. We are also committed to regularly review and update our internal control policies and procedures, and ensure they are clearly understood by Department employees.

The Department is confident that its business and personnel transactions properly safeguarded state assets, and reflected prudent and reasonable fiscal practices. Nonetheless, we agree with the need for complete documentation and process compliance for all such transactions. As recommended, we will work with the Department of Administrative Services and the Department of Justice to review the circumstances and documentation of the vacation payout transactions identified by the audit.

We appreciate the efforts of your audit team to confirm and improve our business and internal control procedures and practices.

Sincerely,

Paul R. Cleary
Director

c: Mike Greenfield, Director, DAS
Suzanne Townsend, Deputy Secretary of State

This report, which is a public record, is intended to promote the best possible management of public resources. Copies may be obtained by mail at Oregon Audits Division, Public Service Building, Salem, Oregon 97310, by phone at 503-986-2255 and 800-336-8218 (hotline), or internet at Audits.Hotline@state.or.us and <http://www.sos.state.or.us/audits/audithp.htm>.

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The courtesies and cooperation extended by the officials and staff of the Water Resource Department were commendable and much appreciated.

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