Secretary of State

State of Oregon

OREGON UNIVERSITY SYSTEM

UNIVERSITY OF OREGON

Review of Selected Operations

Audits Division

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This report contains the results of our audit of selected operations at the University of Oregon (university). We found that university management should improve its oversight of the operations reviewed. The areas included special payments to employees, enrolled credit hours carried by student employees, state procurement cards, minor equipment items, employee separation procedures, and transactions with the University of Oregon 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 was allowed to design and oversee its own policies and procedures in areas such as personnel, purchasing, and contracting. OUS required the universities to take responsibility for overseeing their own administrative operations. In turn, the universities generally delegated administrative oversight responsibilities to their departments.

In March 2001, the audits division released an informational report titled "Oregon University System—Review of Selected Performance Indicators." For the university, the report showed that from fiscal year 1995-1996 through 1998-1999 administrative expenditures were generally held constant, instructional resources were used more efficiently, and more Oregonians enrolled at the university.

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This report shows areas where the university can better protect public assets from loss, improve compliance with applicable requirements, and better account for its use of state resources and gift funds.

OREGON AUDITS DIVISION

John N. Lattimer
Director

Fieldwork Completion Date:
September 18, 2000

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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. Under Oregon's 1995 Higher Education Administrative Efficiency Act (Senate Bill 271), OUS was made exempt from a number of state administrative regulations. 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.

This review of the university is the second of two in-depth operational reviews performed at OUS institutions. We performed this second review of selected operational areas at the university to determine its compliance with applicable requirements, and to evaluate procedures and systems for safeguarding public assets. Our report resulting from the first review, of Oregon State University, was released on December 1, 2000.

Results in Brief

The university can better protect state assets and improve accountability.

For the areas reviewed, we found that the university can better protect state assets from loss, improve compliance with applicable requirements, and better account for its use of public resources and gift funds. Improvements are needed in the following areas:

Payroll. The university's payroll totaled approximately $145.4 million in calendar year 1999. As of December 31, 1999 the university employed approximately 7,800 persons. We found that the university needs to improve its payroll monitoring procedures in each of the three areas we reviewed. From our sampling of transactions, we found that:

- Additional compensation was paid to employees without adequate documentation justifying the payments. (See page 4.)
- Payments were made for unused vacation leave that did not comply with state policy. (See page 6.)

- Payments to some employees listed as university students did not comply with university policies, and possibly federal tax and immigration regulations. (See page 9.)

Procurement Cards. During calendar year 1999, the university made approximately 9,250 procurement card transactions totaling approximately $1.2 million. Several departments were not in compliance with the terms and conditions of the university's procurement card program. For example:

- Eighteen percent of the transactions tested were for prohibited or questionable purchases. In many cases, there was inadequate documentation to support procurement card purchases. Some procurement card statements lacked evidence of supervisory review prior to payment. (See page 14.)

- Procurement cards had been issued without signed agreements on file with Business Affairs. (See page 17.)

- Improper separation of card management responsibilities. (See page 17.)

Minor Equipment. Minor equipment items are each valued less than $5,000. Many minor equipment items have a high risk of loss because they are transportable and readily converted to personal use. We found that the university should improve its oversight of minor equipment items. For example:

- Five of 15 departments surveyed did not track minor equipment items. (See page 25.)

- Over half of the departments surveyed did not use tie-downs to secure high-risk computers and scientific instruments. (See page 25.)

- Information in the university's fixed asset database was not current, and newly acquired items were incorrectly categorized. (See page 29.)

Employee Separation Procedures. When an employee separates from service, payroll payments must be stopped, assigned equipment items and identification cards must be returned, and access to restricted information systems must be terminated. The university had developed a checklist that included these actions. We found that:

- Most departments surveyed were not using the checklist or other written separation procedures. (See page 33.)
- In a study by the Lane Transit District, 31 of 107 riders presenting a university employee identification card no longer were employed by the university. These former employees were riding buses free of charge using cards that should have been relinquished. (See page 34.)
- University records show that university-owned equipment items were in the possession of former employees. (See page 34.)

Relationship With Foundation. The university should develop and enforce policies describing allowable and unallowable uses of gift funds from the University of Oregon Foundation (foundation). Many gift fund purchases were not consistent with the uses described in gift fund solicitation literature and appeared to have been for personal use. Many purchases would not have complied with OUS rules for employee expenditures. Also, the university needs to better account for its use of foundation gift funds. For example:

- The university was not recording all of its transactions with the foundation. (See Page 40.)
- Two university departments did not maintain records of their gift fund expenditures as required by Oregon Administrative Rule 166-475-0010(23). (See Page 39.)

Agency Response

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

University of Oregon's full response can be found starting on page 53.

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.

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. The changes were made with the goals of increasing administrative and academic efficiency and flexibility, reducing university operating costs, and improving Oregonians' access to higher education.

With implementation of SB 271, 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. 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.

Our review of the University of Oregon is the second of two operational reviews performed at Oregon universities in response to this survey. Our report resulting from the first review, of Oregon State University, was released on December 1, 2000.

Chapter 1: Payroll

Background

The university paid approximately $145.4 million in wages in calendar year 1999.

The University of Oregon (university) paid approximately $145.4 million in wages in calendar year 1999. There were approximately 7,800 employees as of December 31, 1999. Along with all other OUS institutions, the university uses Banner-brand 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. The human resource information system is necessary for payroll and human resources administration.

Payroll administrators within most departments can directly enter into the human resource information system the number of hours an employee worked and the number of leave hours taken. Payroll administrators within each department also may enter data for other types of compensation, such as awards for substantial service, and cash payments for unused vacation leave.

We limited our review of university payroll to three areas:

- Payments to employees in addition to regular salaries.
- Payments to employees for unused vacation leave.
- Payments to employees listed as students attending the university.

Summary of Results

We found that the university needs to improve its payroll monitoring procedures in each of the three areas reviewed. For example, we found instances in which:

- Additional compensation was paid to employees without adequate documentation justifying the payments.
- Payments were made for unused vacation leave that did not comply with state policy.
- Payments to some employees listed as university students did not comply with university policies, and possibly federal tax and immigration regulations.

Additional Compensation Paid to Employees

Oregon Administrative Rules (OARs) for OUS allow an employee to receive compensation in addition to regular pay when the employee provides substantial service over and above the regular services expected. For unclassified employees such as professors and administrators, additional compensation may be awarded as stipends, endowments, and cash awards.

Department administrators are responsible for maintaining documentation to justify the award of additional compensation. The university does not require departments to submit with payment requests documentation justifying additional compensation.

Stipends, endowments, and cash awards paid to unclassified university employees in January, February, June, July and December 1999 totaled approximately $847,000. Cash awards made up approximately $80,000 of the total. Additional compensation was given in amounts of up to $11,000.

Approximately 62 percent of payments tested were not adequately supported by documentation justifying payment.

We reviewed documentation supporting the payment of additional compensation to unclassified employees at nine university departments. We reviewed 29 payments totaling approximately $111,000. Eighteen of the 29 payments (approximately 62 percent) made by five departments were not adequately supported by documentation justifying payment. The questioned payments totaled approximately $49,000.

Examples of questioned actions include the following:

- One department awarded additional compensation to two employees. We found documented approval showing that each employee was to receive a $10,000 payment. The department paid $10,000 to one employee and $11,647.46 to the other employee. In the second case, the written justification for the additional $1,647.46 was a letter from the employee to the dean of the department. The letter implied the existence of an agreement between the two for the additional compensation. Although the payments to the two employees were made in December 1999, written approval for a $10,000 payment to each, from the university's Academic Affairs office did not occur until January 2000.

In addition to the $11,647.46 payment, a payment of $7,771.64 was erroneously made to the same employee. The employee subsequently returned this overpayment.

- Bonuses totaling approximately $11,400 were given to two employees for their work to implement an information technology system. The reason for the bonus given on the forms submitted to payroll was written as “HRIT bonus.” Although supervisors may have been aware of the employees’ contributions, this description did not adequately document that the employees performed substantial services over and above regular and expected services.

During our testing we noted that one department gave an employee—who had access to the human resource information system—permission to process her own $4,207 cash award. Under current university procedures, the employee could have done so, thus increasing the risk of an inappropriate payment. This employee appropriately decided to have her award processed by Central Payroll.

The university needs to improve its central oversight of payments for additional compensation.

The university needs to improve its central oversight of payments for additional compensation. At the time of our audit, payroll administrators within each department could enter payment commands directly into the human resource information system, thereby excluding Central Payroll from the payment process.

Recommendations

To lower the risk of inappropriately compensating university employees, **we recommend** that the university:

- Require departments to route to Central Payroll all payment requests for cash awards.
- Allow Central Payroll to process payment requests only if supported with written justification of substantial services performed and signature approval from appropriate officials.
- Use existing automated programming controls to prevent university departments from directly entering and processing award payments.

Cash Payments For Unused Vacation Leave

Under state rules, in certain circumstances, university employees can receive payment for unused vacation leave. The number of vacation leave hours that can be converted to a cash payment depends on the employee's job classification and whether or not the employee is separating from service. For example:

- Upon separating from service, unclassified employees may receive payment for up to 180 hours of unused vacation leave. For classified employees the maximum is 250 hours.

- If an employee is not separating from service, payment for unused vacation leave has been allowed as follows:

    - Classified employees reaching the maximum vacation accrual of 250 hours may receive cash payment for up to 40 hours of unused vacation leave when they are not able to use vacation leave to prevent its loss.

    - Unclassified employees are entitled to receive payments for unused vacation leave only if they have transferred within their department to an unclassified position that does not provide vacation benefits.

    - Management service employees who were moved to unclassified service on November 1, 1996 were allowed cash payoffs of leave accrued prior to reclassification.

Approximately 7.5 percent of vacation leave payments tested were not in compliance with state policies regarding payment for unused vacation leave.

- We reviewed vacation leave payments made to 265 university employees, totaling approximately $426,000, during calendar year 1999. Twenty payments for unused vacation leave (approximately 7.5 percent), totaling approximately $17,000, were not in compliance with state policies. We found an additional payment for approximately $2,400 that we could not determine compliance for because of missing documentation.

To prevent inappropriate payments from occurring, the university needs to strengthen its payroll monitoring and approval procedures. Payroll administrators within each department can enter vacation leave payment commands directly into the human resource information system. In addition, department managers are not required to review and approve entries before checks are issued.

We were told that the human resource information system is capable of generating an online roster report that lists all current employees along with their payroll records. The decision of when and whether to use these reports for monitoring employee payments has been left up to department management.

Paid vacation leave is provided to employees as a time-off benefit, not a cash benefit. In providing paid vacation leave the state recognizes that its employees need time away from their jobs. By allowing employees to convert accrued vacation leave hours to cash, the university has changed the nature of the benefit.

Employee vacations are an important part of the management control process and should be encouraged. As a protection against fraud or mismanagement, employee responsibilities should be periodically reviewed, or actually performed, by another party. Vacations provide a good opportunity for this essential management control procedure.

Recommendations

We recommend that the university:

- Consider modifying university procedures and the human resource information system to require on-line approval of payroll by department management prior to payment. Consider requiring central processing of all cash payments for accrued vacation leave. This would require modifying the system to prevent departments from entering and executing payments for unused vacation leave.

- Work with the Department of Justice to determine the proper recourse for questioned employee payments.

Reinstatement of Lost Vacation Hours

The university enters into labor agreements with the Oregon Public Employees Union (OPEU) for its classified employees. The agreement effective between January 1, 1999 through December 31, 1999, states:

> *To avoid losing vacation the employee must request vacation leave. When such leave is impossible a cash payment of not more than forty (40) hours shall be made. In lieu of cash payment, the Employer shall schedule time*

off in excess of 250 hours within thirty (30) days prior to the date the vacation leave would reach 250 hours.

Reinstated vacation leave for five employees totaled approximately 93 hours.

During our review of vacation leave payments, we noted that the university reinstated forfeited vacation leave hours for five classified employees. For these employees, vacation leave accrual was stopped once the maximum accrual of 250 hours was reached. Once vacation leave was used, however, or a cash payment for unused vacation leave was made, the forfeited vacation leave hours were reinstated. This reinstated vacation leave totaled approximately 93 hours with a value of approximately $1,050.

We question the reinstatement of forfeited vacation leave after the 250-hour maximum vacation leave accrual was reached.

We question this reinstatement of forfeited vacation leave—those hours lost after the 250-hour maximum vacation leave accrual was reached. The language in the collective bargaining agreements appears to require action on the part of the employee or the employer to schedule or pay accrued leave *prior to* when the 250 maximum hours is reached in order to avoid losing vacation leave. University officials have taken the position that this reinstatement of forfeited vacation leave is appropriate under the OPEU agreements.

Making cash payments and reinstating hours directly increases operating costs because Central Payroll personnel must manually calculate and input the changes.

Recommendation

We recommend that the university consult with the Department of Justice to clarify the meaning of the vacation accrual language in the collective bargaining agreements.

Minimum Credit Hours For Student Employees

The university needs to improve its central monitoring procedures to ensure that student employment is provided in compliance with university policies and applicable regulations.

University employees enrolled as students are required to carry a minimum number of credit hours each term.

University employees enrolled as students at the university are required to carry a minimum number of credit hours each term. The minimum amounts are set by university policy, the Internal Revenue Code, and Immigration and Naturalization Service regulations. Different requirements exist for undergraduates, graduates, and employees holding graduate teaching fellowships. For example, university policy requires undergraduate student employees to be enrolled in at least eight credits and graduate student employees to be enrolled in at least six graduate credits. If graduate students are working on their theses, however, this requirement is reduced to three credits. Any approved exception to minimum credit hour requirements must be documented.

University policy defines a student employee as one whose major efforts are directed toward receiving a formal education.

University policy defines a student employee as one whose major efforts are directed toward receiving a formal education. Student employment serves two main objectives:

- To furnish valuable work experience for qualifying students through the performance of necessary jobs on campus, and
- To provide financial assistance to students to help fund their academic studies.

The Internal Revenue Code requires withholding and payment of Social Security and Medicare on wages earned, unless an employee is a student who is enrolled and regularly attends classes.

Immigration and Naturalization Service regulations require international students to be enrolled full-time in order to maintain their visa status, which includes the opportunity to work on campus.

We reviewed payments and the number of enrolled credit hours for 5,030 employees identified as university students in February, May, July and November 1999. The gross pay was approximately $3.4 million for these employees for the four months reviewed.

104 student employees did not meet minimum credit hour requirements.

We found that 104 of the student employees reviewed did not meet the university's minimum credit hour requirements for two consecutive terms. Of these, 43 also did not meet credit hour requirements set forth in the Internal Revenue Code. Eight international students did not meet credit hour requirements defined in Immigration and Naturalization Service regulations.

For the 43 student employees who did not meet either university or Internal Revenue Code requirements, we estimate that Social Security and Medicare were underpaid by approximately $6,300 in calendar year 1999. Since the visa status for the eight international students not meeting Immigration and Naturalization Service regulations was questionable, the lack of withholding and payment of Social Security and Medicare on their wages may have also violated the Internal Revenue Code. Thus, Social Security and Medicare might have been underpaid by an additional $2,700 in calendar year 1999 for the eight international students.

The Office of International Education and Exchange (OIEE) at the university is responsible for monitoring compliance with Immigration and Naturalization Service regulations for all international student employees. Central monitoring procedures do not require the OIEE to be notified of non-complying international student employees. To determine whether or not approved exceptions were documented in students' files, we reviewed OIEE files of the 31 international student employees. For eight of these employees, documentation to show compliance with Immigration and Naturalization Service regulations was missing. No student files could be located for three of the student employees. Another five student files were located, but did not include any documentation showing approval of exceptions to Immigration and Naturalization Service regulations.

An international student who graduated in 1998 was still working in 1999 even though he was not enrolled in any credit hours for the entire year.

For example, one employee classified as a student had been an international student who, according to OIEE records, graduated in Spring of 1998. The OIEE did not have any documentation authorizing this student's continued employment with the university after graduation. In calendar year 1999 this individual was still on the university's payroll as a student employee. Enrollment data received from the university showed that this employee was not enrolled in any credit hours for the entire year. Medicare and Social Security were not withheld and paid for this employee. This employee was paid approximately $7,500 in calendar year 1999.

Central Payroll monitors for compliance with Internal Revenue Code regulations, but its procedures need strengthening. When Central Payroll identifies a student employee who is not in compliance, it notifies the applicable departments. The departments are expected to initiate action to remedy the noncompliance. However, no process is in effect to document department notifications; nor is follow up performed to ensure that departments have brought non-complying student employees into compliance.

Qualifying university students may miss out on work experiences and income

When non-complying individuals hold student jobs, qualifying university students may miss out on opportunities for work experiences and required income to offset education expenses. The university could be held liable for not paying Social Security and Medicare obligations for non-complying employees.

Recommendations

To ensure that student employees comply with university policy, Internal Revenue Code, and Immigration and Naturalization Service regulations, **we recommend** that the university's Central Payroll:

- Monitor student employee minimum credit hour requirements established in university policy, Internal Revenue Code, and Immigration and Naturalization Service regulations.
- Document all of its notifications to departments about non-complying student employees.
- Forward a list of non-complying international student employees to the OIEE.
- Perform follow up to ensure that departments and the OIEE have corrected all instances of noncompliance, documented allowable exceptions, or taken appropriate action for continued noncompliance.

A "best practice" was noted at the graduate school.

A "best practice" was noted at the university's graduate school. We noted only four occurrences of noncompliance out of 1,200 student employees reviewed. This low instance of noncompliance may be attributed to the graduate school's follow-up procedures for non-complying students. These procedures include documented follow up with students, documented reasons for granting exceptions, and review of enrollment data to ensure that noncompliance was corrected.

Other Payroll Matters: Untimely Adjustments to Payroll

Accrued vacation hours cannot exceed 260 for unclassified employees.

Under the OARs, accrued vacation hours cannot exceed 260 for unclassified employees. This limit was effective as of September 1, 1999. Prior to September 1, 1999, no maximum limit existed on the amount of vacation leave that unclassified employees could accrue.

During our review of cash payments for unused vacation leave, we noted that there were unclassified employees with accrued vacation leave in excess of 260 hours at September 1, 1999. For these employees, vacation leave was not reduced to 260 hours until November 1999. We notified university officials of these occurrences and received confirmation that accruals had not been adjusted until November.

Employees with vacation accruals exceeding 260 hours may have received inappropriate benefits.

Since vacation accruals were not adjusted until November 1999, employees with accruals greater than 260 hours may have received benefits to which they were no longer entitled. This could occur if an employee either used or was paid for any accrual over 260 hours between September 1, 1999 and November 1999, when the accrual adjustment was made.

In response to our observation, university officials have performed procedures to identify all unclassified employees with accrued leave in excess of 260 hours at September 1, 1999. The university identified 42 employees meeting this criterion.

Recommendations

We recommend that the university:

- Follow through on determining whether any of the 42 employees identified as having accrued vacation hours in excess of 260 at September 1, 1999, subsequently received inappropriate benefit.

- Work with the Department of Justice to determine the proper recourse to collect any benefits inappropriately received.

- Ensure that required payroll adjustments are made in a timely manner.

Chapter 2: Procurement Cards

Background

The university's procurement card program provides procurement cards to its departments for making authorized purchases. Compared to traditional public sector purchasing procedures, the procurement card program improves efficiency and lowers the cost to purchase low-cost items.

The Business Affairs office oversees the procurement card program. It is responsible for requesting and obtaining the cards from the bank, and issuing cards to departments. Business Affairs also is responsible for monitoring purchases, and reviewing and approving all procurement card agreements.

Department card custodians are responsible for card security and control. They also are responsible for maintaining documentation provided by the card users to support purchases, reconciling purchases to monthly statements, and ensuring that procurement cards are used only for authorized purchases. Approving supervisors are responsible for approving monthly statements and supporting documentation.

The university had 140 procurement cards available for use in calendar year 1999. During this period, there were 9,250 transactions with charges totaling approximately $1.23 million.

Summary of Results

Several departments were not in compliance with the terms and conditions of the university's procurement card program. We found:

- Prohibited and questionable procurement card purchases totaling $13,835.
- Inadequate documentation to support procurement card purchases.
- Procurement card statements that lacked evidence of supervisory review for compliance.
- Missing procurement card agreements that should have been filed with Business Affairs.

- Improper separation of card management responsibilities. We also found instances in which the same individual was responsible for approving charges on a card, and authorized to use the same card.

- Inadequate security over procurement cards.

- Procurement cards that were used infrequently or not at all.

Business Affairs, department heads, and credit card custodians need to provide better oversight and control over procurement cards as is required by university policy.

Prohibited and Questioned Procurement Card Transactions

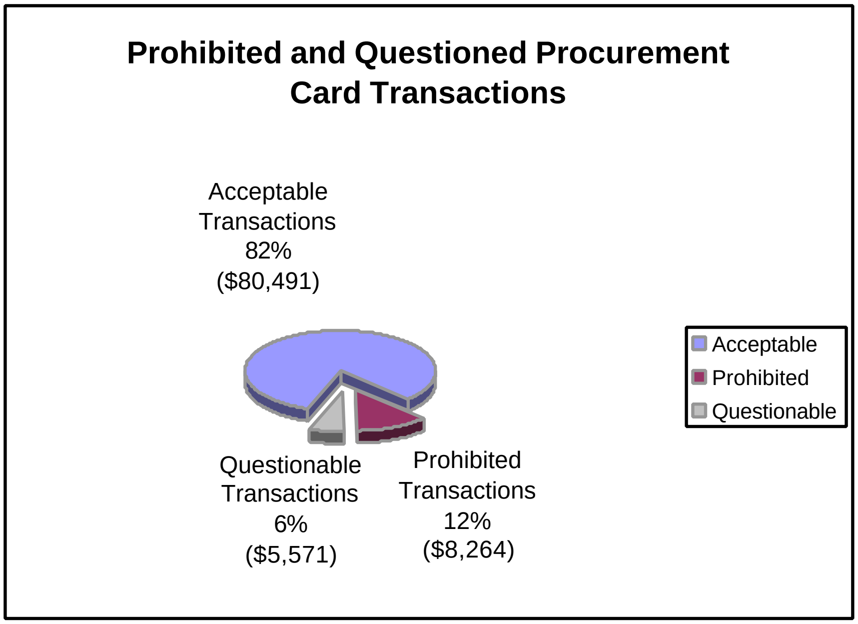
To evaluate procurement card transactions for compliance, we referred to university policy and OUS's Financial Administration Standard Operating Manual. University policy prohibits procurement cards from being used for travel, entertainment, restaurants, alcoholic beverages, refreshments, or hosting. University policy also requires card custodians to retain documentation to support purchases.

We reviewed 809 procurement card transactions totaling approximately $94,326 and found the following:

Approximately 18 percent of transactions tested was for prohibited and questionable purchases.

Of the total number of transactions tested, 148 (18 percent), totaling approximately $13,835, were for prohibited and questionable purchases. Of the 148 transactions, 101, totaling approximately $8,264, were for prohibited purchases. Another 47, totaling approximately $5,571, were questioned because the documentation was incomplete and the business purpose for the purchase was not clearly stated.

The following chart shows the portion of tested transactions that went for prohibited or questionable purposes:



We found that prohibited purchases were made for airfare, restaurant meals, retail items, flowers, hotel facilities, coffee, and gifts.

During our review, we found that prohibited purchases were made for airfare, restaurant meals, retail items, flowers, hotel facilities, coffee, and gifts. University policy does not allow procurement cards to be used for entertainment, hosting, or refreshments. An example of a questioned expenditure is a dinner meeting that included wine and flowers.

A questioned going-away gift and reception. We also questioned the reasonableness of costs for a reception. One department used a university procurement card to purchase a briefcase for $295 as a gift for a non-retiring employee leaving the university. Employee donations reimbursed the state for approximately $216. We discussed this purchase with the department on April 20, 2000. On May 3, 2000, the department reimbursed the remaining balance of approximately $79 using foundation funds. The reimbursement occurred approximately 11 months after the purchase.

While reviewing the $295 procurement card purchase, we noted that $858 was spent for a going-away reception for the same employee. Although not charged on a procurement card, university records indicate that state funds were used to make payment.

According to university policy, employee recognition awards are allowed for outstanding achievements, length of service, and retirement. All related expenses must be reasonable. We question using state funds to pay for the going-away employee recognition, since the employee was not retiring, but leaving to accept employment elsewhere. We found no documentation showing that the employee was being recognized for outstanding achievements or length of service. We also question the reasonableness of the cost of the reception.

One department used a procurement card to purchase eight geraniums. No business purpose was documented.

A department head or other authorized person did not sign 83 of the 90 procurement card statements examined. Payment was made without verification that an authorized person reviewed and approved the statements and supporting documentation.

The university needs to improve its procedures for monitoring procurement card use.

The university needs to improve its procedures for monitoring procurement card use. One way that Business Affairs monitors procurement card purchases is to review questionable charges. Business Affairs relies primarily on telephone conversations with card administrators and card custodians. In doing so, Business Affairs does not visit departments to review documentation to ensure that purchases were properly approved and were for allowed purposes. Additionally, the university's internal review service, the Quality Assurance Consulting Services team, may annually review departments. Its review, however, is limited to review of procurement card logs and does not include a review of receipts or other supporting documentation.

We reviewed information that Business Affairs gathered during its monitoring of calls, and compared it to documentation records. In some instances, the two did not agree. For example, one department card custodian, when questioned about a purchase, stated that the purchase was for allowable office supplies. Our review of the documentation showed that a cake was purchased, not office supplies. Reportedly, the cake was used for a birthday celebration. This was not an appropriate use of the procurement card.

The university needs to impose consequences on repeated violators of procurement card policies and rules.

We found no instances in which the university imposed consequences on repeat violators of procurement card policies and rules. We found that Business Affairs repeatedly notified some departments about unallowed expenditures, but did not take enforcement action. Noncompliance can be grounds for revoking a card or holding persons personally liable for expenditures. For example, for seven of the 12 months reviewed, one department continued to charge prohibited hosting expenses after being told to stop.

Issuing Credit Cards, Assigning Responsibilities, and Providing Credit Card Security

Before a credit card may be issued to a department, university policy requires the department to submit to Business Affairs a signed VISA card application and agreement (procurement card agreement). By signing the procurement card agreement, the department head, card custodian, and card users acknowledge that they understand their responsibilities and agree to the terms and conditions of the agreement. In order to prevent any employee from making and concealing inappropriate purchases, custodian and user responsibilities should be assigned to different employees.

We reviewed procurement card files for procurement card agreements, and the assignment of responsibilities. For 159 cards issued as of February 23, 2000, we found the following:

Procurement card agreements not on file with Business Affairs.

- **At the time of our review, procurement card agreements for 18 cards were not on file with Business Affairs.** The university provided 12 of these agreements after we began our review. No charges were made on the remaining six credit cards during calendar year 1999.

- **Some procurement card agreements were unsigned and some purchases were made by unauthorized users.** We noted procurement card agreements with names typed in. We also found instances in which employees not identified in the procurement card agreements as authorized users had made purchases.

Incompatible assignment of procurement card responsibilities was found.

- **Incompatible assignment of responsibilities.** Eighty-nine procurement cards were issued to departments listing custodians as designated card users; 62 listed department heads as designated users; and 52 listed both the department head and custodian as designated users. Eight departments assigned all card management duties to one person.

A card custodian is responsible for the security and control of a credit card, maintaining purchase documentation provided by users, reconciling purchases to monthly statements, and ensuring that the card is used only for authorized purchases. Approving supervisors are responsible for reviewing and approving the monthly statement and supporting documentation. Designated users are authorized to make card purchases. When custodians and approving supervisors are authorized users, inappropriate card use could go unreported. Business Affairs does not ensure that required procurement card agreements are obtained and functional responsibilities assigned to different employees.

Security over credit cards could be improved.

- **Security over credit cards could be improved.** Two of the eight departments reviewed left their credit cards in accessible unlocked locations during the day.

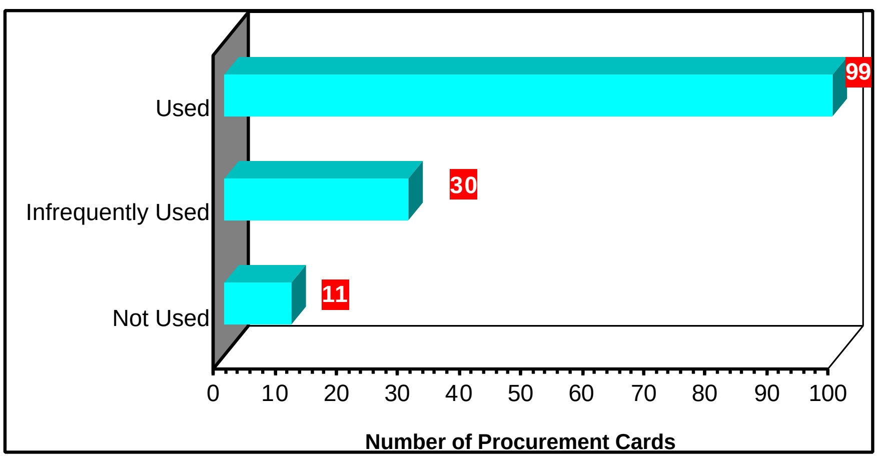
Although card custodians are responsible for the security and control of a credit card, the university policy has no policies or procedures on how security is to be accomplished. Inadequate card security increases the risk that a procurement card will be inappropriately used, lost, or stolen.

Frequency of Procurement Card Use

Approximately 29 percent of the university's procurement cards were used infrequently or not at all.

The university had 41 procurement cards (approximately 29 percent) that were used infrequently or not at all. The following graph shows that 99 of the 140 procurement cards reviewed were used regularly, 30 were used infrequently, and 11 were not used.

Frequency of Procurement Card Use



Eleven cards (approximately 8 percent), with a combined credit limit of $55,000, were not used in calendar year 1999.

- **For the 11 unused cards (approximately 8 percent) with a combined credit limit of $55,000 that were not used during calendar year 1999, we found that:**
    - Three do not appear to have been received by the intended department.
    - Three were destroyed by central purchasing because the department did not pick them up. No documentation existed to indicate that the credit card company had been notified of their destruction so that the accounts could have been closed.
    - The remaining five cards, with a combined credit limit of $25,000, were available for use.

Thirty cards (approximately 21 percent) with a combined credit limit of $152,000 were used infrequently.

- **Thirty infrequently used procurement cards (approximately 21 percent), with a combined credit limit of $152,000, were used less than 12 times or had expenditures totaling less than $1,200 in calendar year 1999.**

The university should improve its monitoring of procurement card use. We found that Business Affairs does not track procurement cards to ensure that the university receives the cards it orders. Business Affairs does not verify with the credit card company that accounts are closed when cards are destroyed, or remove destroyed cards from the university's list of active cards.

Monitoring controls over procurement card use is important to reduce the risk of credit available for misuse.

Procurement card use should be monitored to reduce the risk of misuse. The procurement cards provide access to the purchasing power of the state. Although appropriate use of procurement cards should result in savings, readily available credit can also increase the state's exposure to loss.

Recommendations

To improve oversight of its procurement card program, **we recommend** that the university:

- Provide custodians with instruction on documentation requirements.
- Consider having the Quality Assurance Consulting Services team review departments' credit card receipts and other supporting documentation in addition to their review of

procurement card logs. This team also could provide procurement card administrators with training in procedures should they find questionable or prohibited charges.

- Require department heads or other approved supervisors to promptly review monthly statements and supporting documentation to determine if credit cards have been used appropriately. Review should be documented, as required by university policy, by signing the monthly statements after review and approval.

- Clarify policies to explicitly state requirements for card security. Communicate the requirements to all custodians and department heads. We recommend that custodians be required to keep procurement cards in a locked location when not in use and control access to include only those employees that are designated users on the department's procurement card agreement.

We further recommend that Business Affairs strengthen central monitoring controls.

- Instead of relying primarily on telephone contact to obtain information about questioned charges, periodically visit the departments and review supporting documentation.

- Define what will be considered as "reasonable" expenses for receptions and gifts purchased in honor of employees.

- Consider enforcing sanctions if procurement cards are repeatedly used for prohibited expenditures.

- Withhold distribution of procurement cards until signed procurement card agreements are received.

- Review procurement card agreements for assignment of functional responsibilities. If functional responsibilities cannot be separated due to a department's small size, increase central review of the department's credit card purchases.

- Monitor use to identify cards with low use. Consider alternatives for low use cards, such as encouraging departments to increase use of procurement cards to lower purchasing costs, lowering credit limits, or closing accounts.

- Monitor to ensure that the university's record of active procurement cards is kept current. Ensure that departments receive the cards they order. Promptly notify credit card companies of lost and destroyed cards.

Other Purchasing and Cash Handling Matters: Personal Use of State Funds

University purchasing policy specifies that procurement cards are not to be used for personal or non-business purchases. University policy also requires departments to follow university procedures to establish a petty cash fund. These procedures state that petty cash funds should never be used for personal reasons.

A CD player purchased with a procurement card was kept at employee's home.

During our review of procurement card transaction records at one off-campus university department, we found an invoice for the purchase of a CD player for $49.95. We asked where the CD player was located. We were told that it was located at the home of an employee.

A rebate for the purchase was cashed by the employee and placed in an unofficial petty cash fund.

The employee with the CD player told us that she had received a cash rebate made payable to her when the player was purchased. The employee stated that she cashed the check and placed the money in a petty cash fund that the department uses for miscellaneous expenses. This fund is not an official petty cash fund established by the university. The employee explained that in addition to cash rebates, the petty cash fund includes proceeds from textbook sales and employee payments for their use of university postage. The petty cash fund was used to pay for parking tickets, greeting cards, coffee, and plant care.[1]

The above was one of several indications that the university should strengthen central oversight of its departments' financial activities, especially departments located off campus.

Recommendations

[1] We reviewed the documentation for the unofficial petty cash fund and noted one $13.50 expenditure for admission to the Pittock Mansion in December 1999. When asked if the visit was for personal use or related to university business, an employee said that the visit was for personal use. We reviewed the time entry form for the three employees who attended the December 1999 visit to the Pittock Mansion and noted that two of the employees reported eight hours of regular time and did not use leave time for the trip. There were no daily time records for the third employee.

We recommend that the university:

- Increase monitoring of departments' financial activities, including departments located off campus.

- Improve communication with departments concerning policies regarding use of procurement cards, cash handling procedures, and proper handling of cash rebates.

- Eliminate the unofficial petty cash fund discovered during our review and require all funds to be deposited in an appropriate university account.

- Follow through with disciplinary policies when university property or funds are discovered to have been misappropriated for personal use.

Chapter 3: Equipment

During our review of the university's procedures and systems for safeguarding state assets, we found that the university could improve its monitoring of high-risk minor equipment, including high-risk equipment located off campus, and equipment on loan to students. In addition, the university needs to improve procedures to ensure that its fixed asset database is kept current and that equipment purchases are recorded in appropriate database account codes.

Background

The university's Property Control Section, located within Business Affairs, administers equipment policies set by the OUS Chancellor's Office. Property Control manages the university's equipment inventory system, maintains equipment records, coordinates and reviews physical inventories, and assists university faculty and staff with equipment procedures and inventory control.

Department managers are responsible for all equipment purchased, assigned, or on loan to their departments. They are to ensure that equipment is properly used, cared for, and maintained.

Property Control and department personnel perform and coordinate their work based on the OUS Property Control Manual. Each department has a hard copy of the manual and the manual is available on-line to anyone at the university.

The university classifies equipment as either capitalized equipment or minor equipment. Capitalized equipment items are defined as tangible personal property that meets the following criteria:

- Are valued at $5,000 or more.
- Are not consumed in the normal course of business.
- Have a useful life that exceeds one year.

Minor equipment is capitalized equipment (as defined) except that its unit value is less than $5,000.

The university reported ownership of $143 million in capital equipment in fiscal year 1999.

Oregon University System policy requires each university to take a physical inventory at least once every two years. During our review, we found that university departments performed an inventory of all capitalized equipment in 1997 and 1999. Departments conduct the inventory by checking off an inventory list provided by Property Control from the fixed asset database. The estimated value of all university-owned capital equipment totaled approximately $143 million at the end of fiscal year 1999.

Through fiscal year 1999, university policy required that departments conduct an actual physical inventory every five years for minor equipment and consumable supplies (low dollar items consumed in the normal course of business). After fiscal year 1999, this five-year inventory requirement was changed to two years if the total dollar amount of the equipment was significant. The OUS Chancellor's Office gave the university the option of having departments complete the physical inventory or develop a method to ascertain the value of general office supplies and minor equipment.

Each year, departments submit to Property Control a value estimate of its minor equipment for insurance purposes.

Property Control estimated the total value of minor equipment and consumable supplies at approximately $55.3 million for fiscal year 1999 and $53.6 million for fiscal year 2000.

Minor equipment including computer-related purchases totaled approximately $16 million from fiscal year 1997 through fiscal year 1999.

From fiscal year 1997 through fiscal year 1999, the university purchased approximately $16 million in minor equipment including computer-related items.

Property Control uses a financial information system fixed-asset database to track capitalized equipment, lease-purchase arrangements, leased equipment in the custody of the university, and property on loan to the university for more than 90 days.

Property Control does not use the fixed asset database to track minor equipment. Decisions about safeguarding and tracking minor equipment items are left to the discretion of department managers.

Safeguarding High-Risk Equipment

The risk of theft is high for expensive and transportable items that are readily converted to personal use.

State rules recommend that inventory items having a high risk of loss be identified, recorded, and controlled. This includes high-risk minor equipment valued under $5,000, such as laptop computers and other electronic equipment. Because these items are often expensive, transportable, and readily converted to personal use, they have a higher risk of theft. Safeguards are needed to protect them.

Approximately 33 percent of departments surveyed do not track high-risk equipment.

Five of the 15 departments we surveyed, approximately 33 percent, do not track high-risk equipment under $5,000. The remaining 10 departments do some type of tracking, although most do not have a complete tracking system. A complete system would track an equipment item from the time it is purchased until it is disposed of, and would include identifying information such as a serial number and current location.

We surveyed responsible department employees asking what precautions were taken to safeguard high-risk equipment. Most responded that precautions included:

- Keeping rooms locked when not in use.
- Limiting building access, except during normal business hours.
- Locking equipment in cabinets.

Employees from seven of the 15 departments reported using tie-downs for computers or scientific equipment. In addition, employees from only five of the 15 departments reported that they tag computer or scientific equipment with numbered University of Oregon property stickers.

Reported computer equipment theft has cost state agencies almost $700,000 over the past four fiscal years.

The amount of loss from the theft of high-risk equipment could be substantial. According to information obtained from the state's central Risk Management Division reported computer equipment theft has cost state agencies almost $700,000 over the past four fiscal years. From January 1, 1999 through December 31, 1999, 18 items considered to be high risk, equipment acquired for approximately $57,500, were reported as stolen from the university. The actual amount of stolen property likely is greater. Without procedures for tracking high-risk equipment, identifying stolen equipment may be difficult, and losses may go unreported.

By developing policies and procedures to safeguard high-risk equipment, the university can reduce the risk of loss due to theft, and possibly increase its chances of recovering stolen equipment.

Recommendations

We recommend that the university:

- Include policies for safeguarding high-risk equipment in the Property Control Manual. It is important that the policy include a description of what the university considers to be high-risk equipment.

- Develop procedures requiring:

    - Departments to implement a tracking system for high-risk equipment. The tracking system should include identifying information, such as the equipment's description, serial number, and current location.

    - High-risk equipment to be tied down, permanently marked as university property, and stored in a locked room.

Monitoring Off-Campus Use of High-Risk Equipment

The Property Control Manual provides policy for equipment located off campus.

University personnel and students are allowed to use university equipment off campus. To do so, the Property Control Manual requires a written loan agreement between the borrower and the owning department. The loan agreement must include a description of the equipment, the person borrowing it, the length of time for which the person wants to borrow it, and where the borrower will be using it. The department head must approve the agreement and forward a copy to Property Control. The agreement used by the university is called the Property Receipt Form.

Equipment is located off campus without proper authorization.

Responsible employees at 10 of the 15 departments surveyed stated that they had some equipment loaned to employees at off-campus locations. Five of these departments use the Property Receipt Form, as required. We tested a sample of 71 capitalized and high-risk non-capitalized items. We found that six items, or 8.5 percent, were located off site and a Property Receipt Form was not on file. Two of the departments with equipment located off site had previously told us that they did not have equipment off site.

Equipment removed from campus without a loan agreement is at greater risk of loss because a loss could occur and go unreported and unnoticed. Property located off site that is not tracked may not be listed on the annual physical inventory of minor equipment and therefore would not be insured if lost or stolen.

Department heads responsible for monitoring off-campus use of equipment should better ensure that personnel use Property Receipt Forms. Additionally, when Property Receipt Form files exist, there is generally no connection to the employee personnel file. Without an indication in the personnel file that an employee has property located off campus, the employee may separate from the university without the department requesting the equipment's return.

By obtaining written authorization to remove equipment from campus, and strengthening procedures for tracking off-campus equipment, the university can reduce its risk of loss.

Recommendations

We recommend that the university require each department to:

- Enforce university policy requiring all employees to complete a Property Receipt Form for all assigned equipment located off campus. The completed forms should be compared to forms on file and any discrepancies researched. If equipment on the Property Receipt Form is recorded in the fixed asset database, ensure that the database shows that the asset is located off campus.

- Copies of Property Receipt Forms should be filed in employees' personnel files or students' department files. When an employee or student returns assigned equipment, the Property Receipt Form should be used to document the return.

- Each department employee responsible for completing the annual inventory of minor equipment should maintain a record of all Property Receipt Forms. At the time of the annual inventory, each employee or student who completed a form should be contacted and asked whether or not the equipment is still in the possession of the employee and still being used to benefit the objectives of the university. Any discrepancies should be communicated to department management.

Protecting Equipment Loaned to Students

Two computers at one department could not be located.

During our testing of equipment at one department, we could not locate two laptop computers. These computers appear to have been part of an inventory of laptop computers kept as loaners for students experiencing problems with their own computers. We were unable to verify that the two computers were part of the loaner pool because the department does not maintain an inventory list or a checkout system for its loaned computers.

Without an inventory list or checkout system for computers kept as loaners, a loss or theft could occur and go unnoticed. For example, a missing computer may be assumed to be on loan.

Computers on loan may be excluded from the inventory valuation list. Equipment omitted from the valuation list would not be insured if found to be lost or stolen.

We also observed that students had free access to the department's computer loaner pool. The computers were kept in an office on a shelf. They should have been kept in a locked cabinet or tied down. Easy access to computers in the loaner pool increases their risk of being stolen.

Recommendations

We recommend that the university require this department to:

- Maintain an inventory list for all computers in the loaner pool and any other equipment checked out to students or employees. The list should include a description of the equipment including a serial number, if applicable.
- Develop checkout procedures for equipment loaned to students or employees. The checkout list should include information that identifies the equipment, the borrower, the expected return date, and the off-campus address where the equipment will be kept.
- Keep loaner pool equipment locked up or tied down. All equipment in the loaner pool should be clearly marked as university property.

Maintaining Inventory Records

Physical inventories of fixed assets are required biennially.

Each department is required to take an inventory of fixed assets, including capitalized equipment, at least biennially. The university's Property Control section provides each department with a list of assets assigned to it. This list is generated from the fixed asset database. After conducting its inventory, each department is required to return the list to Property Control, and identify any changes, such as a change in the location of an asset or missing assets.

Removing an item from the database for any reason requires a completed Property Disposition Request form. When assets are reported as missing, they are to be coded as missing in the fixed asset database. If the assets are missing the next time the inventory is performed, the assets are removed from the inventory database.

A Loan Agreement is used when the university borrows personal property. Occasionally, employees or students bring their own equipment on campus for official use. If the loan is for more than 90 days, regardless of the value, the property is to be recorded in the fixed asset database.

Control of the fixed asset inventory records needs improvement.

Seven of 15 assets tested were no longer located at the university.

During our testing and review of data from the fixed asset database, we found indications that the university needs to improve its control of fixed asset inventory records:

- Seven of the 15 assets listed on the fixed asset database were no longer located at the university. Of these seven assets:
    - Five were on loan and had been returned to their owners. No Property Disposition Request forms or Loan Agreements were found on file at Property Control.
    - One was a leased item that had been returned to the Lessee. No Property Disposition Request form was on file.
    - One item had been cannibalized and its parts used as replacement parts for other equipment. No Property Disposition Request form was on file.

Four items identified for removal prior to the 1997 inventory were still on the database in 1999.

Approximately $700,000 of assets coded as missing should be removed from the database.

- Four assets identified in the 1997 inventory as needing to be removed from the fixed asset database were still on the database when the 1999 inventory lists were created. Property Disposition Request forms had been sent to Property Control prior to the 1997 inventory requesting removal.

- As of year-end 1999, approximately $1 million of assets in the fixed asset database were coded as missing. Items totaling approximately $700,000 had been missing for more than a year and should be removed from the database.

Several factors may have contributed to inaccurate records in the fixed asset database:

- Property Control had not reviewed all changes to the 1999 biennial inventory lists and updated the fixed asset database. This backlog resulted after the inception of the fixed asset database when, for a period of approximately one year, Property Control was unable to remove assets from the database. This backlog hindered efforts to maintain current inventory records.

- Property Control has not performed necessary follow up to ensure that assets coded as missing for more than one year have been removed from the fixed asset database.

- Departments have not always completed Property Disposition Request forms for assets no longer loaned or leased by the university, or for assets that have changed location or been cannibalized for parts.

Inaccurate fixed asset inventory records could result in the following problems: (1) misstated asset values in the university's financial statements; (2) inaccurate information for use in management decisions; (3) inaccurate information for insurance purposes; and (4) inefficient or ineffective efforts to locate and recover lost and stolen items.

Recommendations

To improve equipment inventory record keeping, **we recommend** that:

- Property Control review changes noted on the 1999 biennial inventory lists, and update the fixed asset database as necessary.
- Property Control contact departments and request that they file Property Disposition Request forms to remove from the inventory fixed assets reported as missing longer than one year. Also request that departments file the forms for fixed assets moved to a different location or cannibalized for parts.
- The university provide departments with clear guidance, written down as procedures, for properly accounting for fixed assets.
- Department managers ensure that loaned or borrowed property is recorded in the fixed asset database.

Other Matters: Categorizing Purchases

During our testing of fixed assets and high-risk equipment, we noticed that some purchases were incorrectly categorized in the accounting records. Because of these observations, we expanded our audit to include a review of eight account codes the university used to record minor equipment purchases.

The university uses a two-tier coding system to record purchases. Purchases are recorded into broad account codes, and into more specific commodity codes. For example, a printer may be recorded in a general category account code for printers, and in a commodity account code used for printers for personal computers.

Accurate recording of purchases aids in management purchasing decisions.

To support management procurement decisions, purchases must be accurately recorded in appropriate account codes. For example, in projecting the number of computers likely to become obsolete and in need of replacement, it is important that the accounts for computers accurately reflect purchases.

A variety of unrelated items were recorded in each code.

During our review, we examined the types of items recorded into eight account codes and discovered a variety of unrelated entries. In some cases, items were correctly recorded in the account code but given an unrelated commodity code. For example:

- Some computers were recorded in accounts for software and accounts for printers.
- One computer was incorrectly recorded in a commodity code used for dry cell batteries.
- Binders, folding chairs, and software were recorded in the account code for computers.
- Computers, computer upgrades, office supplies, and CDs were incorrectly recorded in the software account code.

Selection of correct account codes may be confusing.

All OUS universities use standard account codes to categorize fixed assets. There are a large number of account codes from which to choose. In addition, many account codes overlap. The large number of account codes and the overlaps may make selection of correct account codes confusing.

Recommendations

To provide more accurate information for management decision making, **we recommend** that the university:

- Consider developing a list of preferred codes, from those provided by OUS, to be used when recording purchases.
- Communicate to department purchasing personnel proper use of the preferred account and commodity codes.

Chapter 4: Separation Procedures

Background

To protect the state from loss, the university should keep track of assets assigned to employees, and follow separation procedures to ensure the return of those assets. Separation procedures should, at a minimum, require the return of assigned items such as computers, cell phones, keys, credit cards, and identification cards. In addition, payroll must be discontinued, and access to restricted information systems terminated. Employee rosters, along with e-mail and phone listings, should be revised soon after departure. OUS and the university had few written policies or procedures concerning separations.

We noted that OUS procurement card procedures require that the employee's name be removed from lists of authorized card users. We also found that the university's Quality Assurance Consulting Services team had developed a checklist for departments to use when hiring employees and when processing separations. The checklist includes procedures for tracking assets, documenting the return of assets, discontinuing payroll, and similar actions. However, not all departments used the checklist and some staff members were not aware of the checklist.

We reviewed separation procedures at 13 departments. Also, to determine whether or not separated employees' access to restricted systems had been terminated, we compared the December 1999 payroll register with March 2000 lists of employees with access to the university's financial information system and human resource information system.

Staff members in only one of the 13 departments reviewed were aware of the university's separation checklist.

- Staff members in only one of the 13 departments reviewed were aware of the employee separation checklist developed by the university's Quality Assurance Consulting Services team. Four of the 13 departments maintained their own separation checklists; however, three of the checklists did not cover all essential separation procedures. Staff members in the remaining eight departments were unaware of the checklist developed by the Quality Assurance Consulting Services team and did not maintain their own checklists.

Two Property Receipt Forms showed that former employees still had possession of equipment.

- We reviewed 12 Property Receipt Forms used to track equipment located off-campus. Two of the forms showed that former employees still had possession of university equipment.
- We found that three former employees had access to the university's financial and human resources information systems after separation.

Without separation procedures, state assets may be lost. For example:

- Former employees with university assets, including equipment, might never return those assets.
- Former employees with access to the university's restricted information systems could make unauthorized changes in the systems.
- Former employees could continue to be paid after separation because Central Payroll had not been notified.
- Former employees that do not return procurement cards could continue to use those cards.
- Former employees could improperly use university identification cards. This was a particular problem in Eugene, as described below.
    - The results of a study completed by the Lane Transit District, and provided us by the university, showed that 31 of 107 riders (29 percent) presenting university employee identification cards were no longer employed at the university. Since they were not required to return their employee identification cards upon separation, these persons were able to continue riding the Lane Transit District buses free of charge.

Approximately 29 percent of Lane Transit District riders showing university employee identification cards were no longer university employees.

Recommendation

We recommend that the university consider developing an online employee separation procedures transmittal form that, when completed, would automatically forward information about separated employees to the following departments:

- Central Payroll—to discontinue payroll.
- Computer Center—to terminate access to restricted information systems.

- Telecommunications—to remove the employee's name from lists of authorized users.
- Public Safety—to expect the return of any keys assigned to the employee.
- University procurement card office—to remove the employee's name from lists of authorized card users.

The recommended transmittal form should include the employee name, employee identification number, and separation date. The form could also include a section to be manually completed and filed in the employee's personnel file. This section would show that:

- Identification cards were returned and destroyed.
- Authorization to use procurement cards was terminated and any procurement card in the employee's possession was returned.
- The employee had returned assigned keys.
- All university equipment was returned, including any equipment located off-campus.
- The employee does not have equipment on loan to the university that will need removal from the fixed asset database.

A "best practice" was noted at the Computer Center.

A "best practice" was observed at the Computer Center (center). In addition to generally expected separation procedures, such as the return of keys, the center has imposed additional requirements. Separating employees receive a memorandum that gives detailed instructions for completing the employee's separation process.

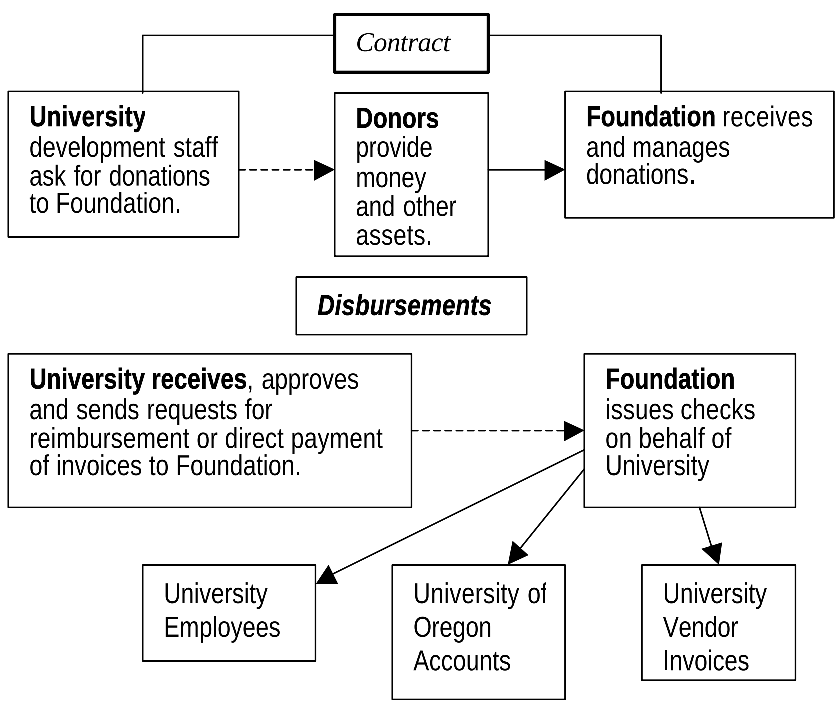
Chapter 5: Foundation

Background

Oregon statutes and administrative rules define and regulate relationships between the state's universities and their foundations. The 1957 Legislative Assembly incorporated the University of Oregon Foundation (foundation) as a private non-profit organization to receive and administer private gifts to the university.

At the end of fiscal year 1998-1999, OUS reported that the foundation had net assets totaling $265.6 million. The foundation's financial statements for the same period showed that it provided approximately $25 million to the University.

The university and foundation are legally independent entities with overlapping roles. State employees working for the university solicit donations to the foundation. The foundation, under contract to the university, is to manage and disburse funds on behalf of the university. The foundation does so by transferring funds to university-managed accounts and by directly paying invoices at the request of the university. These exchanges are shown in the following diagram.



Scope Limitation

Oregon Revised Statutes 297.210 requires the Secretary of State to perform audits of state agencies and state-aided institutions and agencies. The foundation, which provides contracted services to the state and is a recipient of state assistance, did not provide information requested for this audit. Because the foundation did not respond to our requests for cooperation and assistance, the scope of this audit was limited. Without access to both university and foundation records, we could not:

- Determine whether the foundation was operating in compliance with its contract with the state;
- Determine whether the university's gift fund expenditure records made available to us were complete;
- Verify the amount of support that the foundation provided to the university;
- Review the foundation's record of university requests for funds to determine whether the university's requests and the foundation's payments were in compliance with applicable requirements; nor
- Determine whether the university and foundation had properly controlled donors' restricted gifts to assure compliance with donor's instructions.

Recommendation

We recommend that the OUS Chancellor instruct all OUS university presidents to include in their annual contracts with foundations a statement that university and foundation gift fund records are subject to review by the Secretary of State.

Need to Retain Gift Fund Expenditure Records

Under OAR 166-475-0010(23), the university is required to maintain foundation gift fund expenditure records for five years. We encountered two instances in which the university was not in compliance with the rule.

We asked to review the university's fiscal year 1998-1999 gift funds expenditure records for two departments. We were told that the departments had disposed of the records after reconciliation. We were also told that the university had not maintained central records of gift fund expenditures.

The foundation did not respond to our request to review their records of support to the two departments. At the request of university management, the foundation furnished copies of the records.

Recommendations

We recommend that university management:

- Require department administrators to maintain financial records in compliance with Oregon Administrative Rules.
- Centrally maintain records of departments' gift fund expenditures.

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. During the audit period, 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 would appear on the university's central accounting system; or

2. Process payment of the invoice, and then request reimbursement from the foundation. In this case, the transaction would appear on the university's central accounting system; or

3. Send the invoice to the foundation and request direct payment. In this case, under current university procedures, when the foundation pays the invoice, the transaction does not appear on the university's central 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 central accounting system. If payment option number three is used, however, no official university record of the revenue or expenditure exists.

Gift fund expenditures were not recorded in the university's accounting system.

The foundation's financial statement for fiscal year 1998-1999 shows that it provided approximately $25 million of support to the university. University officials stated that the reported amount of support was not all recorded in the university's accounting system. Because we did not have access to both university and foundation financial records, we did not attempt to verify the amounts provided and received.

By allowing its departments to chose when 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 a department is allowed to decide which expenses will be paid by the foundation but not recorded on the university’s central accounting system.

Recommendations

We recommend that the university:

- Establish procedures for processing and centrally 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.

Need to Define Allowable and Unallowable Uses of Gift Funds

We reviewed available records of gift fund expenditures made by 11 University departments during fiscal year 1998-1999. For the reasons listed above, we were unable to determine whether or not we had complete records for the fiscal year.

OUS and the university have established policies for using state funds, but they have not established specific policies or accountability objectives for those entrusted with gift funds.

From the available records, most gift fund expenditures incurred during the fiscal year appeared appropriate; however, we questioned a number of transactions totaling $26,694.

In some cases, university employees spent gift funds on goods and services that were not consistent with the uses described in the university gift fund solicitation literature. For example, gift funds were often spent on food and supplies for parties and picnics, alcohol, flowers, and cakes. The gift solicitation literature does not mention that donations are used for these purposes. None of the 11 departments reviewed had an internal account, funded solely with employee contributions, for making these types of purchases.

In some cases, university employees spent gift funds on goods and services that appeared to be personal in nature and of questionable value to the state. Examples include club memberships and tickets to athletic events. Oregon Administrative Rule 580-040-0205, which is also OUS's code of ethics, provides guidance in this area. For example, employees are expected to give first consideration to the objectives and policies of OUS and the institution, strive to obtain maximum value for expenditures, and comply with the provisions of ORS Chapter 244. [2]

In some cases, university employees spent gift funds on goods and services that clearly would not comply with OUS rules for state fund expenditures. The OUS Financial Administration Standard Operating Manual (FASOM) provides rules for university employee expenditures.

[2] ORS 244.040 states, "No public official shall use or attempt to use official position or office to obtain financial gain or avoidance of financial detriment that would not otherwise be available but for the public official's holding of the official position or office, other than official salary, honoraria."

The following are examples of questioned gift fund expenditures that were not consistent with uses described in gift fund solicitation literature, appeared to be for personal use, or would not have complied with FASOM rules for employee expenditures.

Employee Recognition Awards – FASOM 13.01 (E) (3)

Departments may honor employees for outstanding achievements, length of service, and retirement. Payments for reasonable expenses may be authorized. Persons attending a banquet honoring an employee must pay for their own meals. State funds may be used for the honored employee and a spouse or guest.

Examples of questioned expenditures:

- Reception for outgoing dean: $2,020.
- Retirement-related dinners, parties, supplies, and catering: 17 instances totaling $3,154.
- Staff appreciation receptions: three instances totaling $405.
- Cakes for staff birthdays and departing staff: four instances totaling $120.

Flower Purchases – FASOM 13.01 (F) (2)

Flower purchases are not normally considered proper expenditures of institution funds, unless for use in botany, biology, home economics courses, commencements, convocations or a student activities sponsored function, such as a drama production.

Examples of questioned expenditures:

- Flowers for illness or death in families, flowers for births, and flowers for a holiday party.

Dues for Personal Memberships – FASOM 13.01 (M) (d)

Dues for personal memberships may not be paid from institution funds.

Examples of questioned expenditures:

- Membership to the United Airlines Red Carpet Club, two instances totaling $550.

Meals – FASOM 13.01 (M) (3)

In general, meal charges may be paid from state funds when the following apply: a planned inter-departmental or inter-institutional meeting is called for a specific purpose, and the meal is included as part of the meeting's formal agenda.

Examples of questioned expenditures:

- Faculty dinner, faculty lunches, staff breakfast, catering for faculty meetings, picnic supplies: 12 instances totaling $2,004.
- Balance due on an employee banquet: $1,354.

Parties

FASOM allows expenditures for hosting non-employee guests or groups or a meal served at a meeting when the meal is a part of the formal agenda. The following expenditures appeared to be for staff parties and receptions:

- Holiday reception at a dean’s home for faculty and staff: $2,118.
- Parties: seven instances totaling $1,717.
- Musical entertainment for holiday party: $450.

Fringe Benefits

A "fringe benefit," generally speaking, is any benefit that is provided to an employee by his or her employer other than salary or wages. Unless exempted by the Internal Revenue Code, fringe benefits are to be reported for tax purposes.

In several instances reviewed, university departments did not convey information about fringe benefits to the central accounting office to provide for proper tax reporting. According to university records, none of the following questioned expenses were reported for tax purposes:

- Thirty-two season tickets (football) and 72 tickets (24 X 3 games) for away football games: $7,760.
- Aloha Bowl expenses for a dean and program specialist from the same department: $3,336.
- A dean's personal car insurance (six months premium): $451.

One college purchased the above-mentioned season football tickets and the tickets for 72 away games. We were told that the tickets were bought for relationship building and community outreach to prospective donors; however, the college did not keep a record of ticket users. A record is needed to show whether or not the tickets went for employees' personal use. The college purchased the tickets with money from two restricted endowment gift fund accounts. This use of gift funds clearly was not in agreement with the stated purposes of either fund. One of the funds is to be used at the discretion of the college dean to promote programs of excellence and emerging business opportunities within the college. The other fund is to be used for course development related to business ethics and social consciousness.

In addition to the expenditures identified above, $1,205 from one endowment fund was used to pay for 10 reserved rooms at the San Diego Sheraton that were not used and the reservations were not cancelled in time. The reservations were made for a bowl game that did not materialize.

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

Recommendation

We recommend that the university president:

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

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

- Centrally monitor departments' gift fund expenditures for compliance with fund restrictions and university policies.

- Instruct department administrators to discontinue use of gift funds to pay for department functions, including items such as flowers, cakes, alcohol, and party and picnic supplies.

- Require department administrators to maintain records of fringe benefits purchased for university employees with gift funds.

- Implement central accounting procedures for proper tax reporting of fringe benefits purchased for university employees.

Other Matters: Need to Update Formal Recognitions

The university and foundation operate as legally independent entities under a contractual agreement. The contract in effect at the time of our audit required the university president to recognize the foundation, in writing, as an entity created to provide support to the university. To provide for continued recognition, the foundation's governing body must annually provide the president with a resolution that it has accepted the recognition.

At the time of our audit, the university's most recent letter of recognition was dated August 7, 1990. It was signed by the previous university president. The foundation had not provided a current resolution of acceptance of recognition.

Recommendation

We recommend that the university president formally recognize the foundation and encourage the foundation to adopt and provide a resolution of acceptance.

Commendation

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

Audit Team

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APPENDIX A:

OBJECTIVES, SCOPE AND METHODOLOGY

Appendix A: Objectives, Scope and Methodology

Operations

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

- University controls over its payroll process were adequate to prevent inappropriate payments in the form of additional compensation, awards, and unused vacation leave. We also evaluated the university's compliance with selected federal, state, and university requirements;
- 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
- The university and its departments had implemented controls related to employee separations to protect the state from monetary loss.

To accomplish these objectives we:

- Reviewed applicable state laws, regulations, and policies;
- Reviewed the university's policies and procedures related to payroll, procurement cards, equipment, and separations;
- Interviewed staff in the university's Office of International Education and Exchange, Office of Academic Affairs, and the payroll, property control, and purchasing departments within the university's Business Affairs Office;
- Obtained and analyzed both electronic and hard copy data pertaining to certain payroll payments, procurement card purchases, and minor equipment;
- Reviewed departmental procedures related to specific payroll areas, procurement cards, minor equipment, and employee separations;

- Conducted on-site work at university departments to interview personnel and to review documentation pertaining to specific payroll areas, procurement cards, minor equipment, and employee separations;

- Using payroll registers for calendar year 1999, we judgmentally selected departments and payments for testing. We then tested these payments for additional compensation paid to employees by tracing transactions to supporting documentation;

- Tested appropriateness of payments made for unused vacation leave by comparing the payments with state policies;

- Used auditing software to test student employee compliance with university policy and federal regulations by comparing student employee payroll records to student enrollment records;

- Using central procurement card statements for calendar year 1999, we judgmentally selected departments and transactions for testing. We tested procurement card transactions by tracing transactions to supporting purchase documentation at departments, and by reviewing central monitoring documentation on file at Business Affairs;

- Used the financial information system fixed asset database, and purchase invoices, to judgmentally select capitalized and non-capitalized minor equipment items for testing. For equipment items located on campus, we verified existence when possible. For minor equipment items located off-campus, we reviewed departmental records to verify that a properly completed and authorized Property Receipt Form was on file; and

- Performed tests to determine whether former employees had access to the university's financial information system and human resource information system after separating from service.

Our review focused on payroll and procurement card transactions occurring during calendar year 1999, and minor equipment purchased or shown as owned by the university during calendar year 1999. The work was in accordance with generally accepted government auditing standards.

University of Oregon Foundation

Our objectives for this audit included:

- A review of the university's and foundation's compliance with provisions of contracts between them;
- A review of support that the university provided to the foundation for compliance with state laws, rules, and policies;
- A review of the amount of support the foundation provided to the university.
- A review of the university's expenditure of funds provided by the foundation for compliance with state laws, rules, and policies;
- A review to determine the extent to which the university's transactions with the foundation were recorded properly in university accounting records, and whether supporting documentation was retained;
- A review to determine the extent to which direct benefits that university employees received from the foundation were properly approved and reported; and
- A review to determine the extent to which the foundation and university properly maintained and controlled restricted gift accounts so that expenditures were made in compliance with donors' instructions.

To accomplish these objectives, we reviewed applicable contracts, laws, rules, policies and procedures, and available records related to agreements and transactions between the university and the foundation. The audit period was fiscal year 1998-1999. The work was in accordance with generally accepted government auditing standards.

AGENCY'S RESPONSE TO THE AUDIT REPORT

UNIVERSITY OF OREGON

June 13, 2001

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

Dear Mr. Lattimer:

Attached is the University of Oregon's response to your audit report, Review of Selected Operations. We appreciate your review and the recommendations made in this report. The University of Oregon embraces the audit process as an additional opportunity to evaluate and improve our operations.

We wish to thank you and your staff for the opportunity to provide responses to this report.

Sincerely,

Dan Williams
Vice President for Administration

Enclosure

cc: Dave Frohnmayer, President, University of Oregon
Joseph W. Cox, Chancellor, Oregon University System
Tom Anderes, Vice Chancellor for Finance and Administration, Oregon University System
Patricia Snopkowski, Director of Internal Audit, Oregon University System

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Executive Summary

Agency Response

Management of OUS and the university agree with many of the conclusions and findings outlined in this report, with the exception of the comments related to the UO Foundation. A summary of the University of Oregon's response is provided below:

Oregon's 1995 SB 271 enabled OUS to take responsibility for overseeing their own administrative operations. Since that time, administrative expenses have been reduced, instructional resources are used more efficiently, and more Oregonians have enrolled at the universities. The University of Oregon is committed to a distributed model for financial management and business transaction processing. Under this model, authority to authorize expenditures is given to the departmental units. Departmental Units are held accountable for compliance with applicable regulations and policies that govern our business. The institution has realized cost savings and administrative efficiencies by operating under this model. We appreciate the recommendations made in this report. For those recommendations not already implemented, we will consider the cost effectiveness of implementation as well as alternative solutions for strengthening controls within our operating model.

Payroll

The university converted to Banner HRIS in January of 1999. The conversion to Banner HRIS and the decentralization of the payroll function significantly changed payroll processing at the institution. As part of the HRIS implementation project a significant amount of training was provided to departmental units. Currently new authorized employees, or Payroll Administrators, are required to attend ongoing HRIS Training Sessions.

The university appreciates the recommendations made in this report regarding to additional compensation, vacation leave payouts and adjustments, and minimum credit hours for student employees. For those recommendations not already implemented, we will consider the cost effectiveness of implementation as well as alternative solutions for strengthening controls within our operating model.

Procurement Cards

The university views the Procurement Card Program as an extremely valuable way to cut operating costs related to processing invoices. The Procurement Card Program is designed to provide users with the ability to make specified purchases without requiring pre-approval. Departmental units are held accountable to ensure that users of the procurement cards are following Institutional and Oregon University System policy. Since the time period covered by the audit, the university has improved training and monitoring of this program. The university is committed to continued improvements.

The university appreciates the recommendations made in this report with relation to the procurement card program. For those recommendations not already implemented, we will consider the cost effectiveness of implementation as well as alternative solutions for strengthening controls within our operating model.

Secretary of State Audits Division
University of Oregon Review of Selected Operations

University of Oregon Response

Equipment

Departmental units are held accountable for safeguarding and monitoring equipment. Decisions about safeguarding and tracking minor equipment are left to the discretion of department managers. Since the time period covered by the audit, the university has and will continue to seek ways to improve training and monitoring of equipment.

The university appreciates the recommendations made in this report with relation to equipment. For those recommendations not already implemented, we will consider the cost effectiveness of implementation as well as alternative solutions for strengthening controls within our operating model.

Separation Procedures

The university has considered the feasibility of automating notification when employees separate from employment with the university. Management will continue to explore this option and look for cost-effective ways to ensure appropriate procedures are in place. We will also look for ways to increase the use of the Quality Assurance Consulting Services checklist.

Foundation

The UO Foundation is a legally separate, 501 (c) (3) corporation that 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 UO Foundation. are founded in the premise that the university and the UO Foundation are inseparable, and therefore all funds in that private corporation are to be treated as public funds. UO Foundation funds are private and not subject to state audit. The policies cited in the report do not apply to the transactions noted. The UO Foundation contracts annually for its own audit, as do most private corporations. Its audit report and annual report of activities are made public, available to anyone who requests them.

Secretary of State Audits Division
University of Oregon Review of Selected Operations

University of Oregon Response

Chapter1: Payroll

The university converted to Banner HRIS in January of 1999. The conversion to Banner HRIS and the decentralization of the payroll function significantly changed payroll processing at the institution. As part of the HRIS implementation project a significant amount of training was provided to departmental units. Currently new authorized employees, or Payroll Administrators, are required to attend ongoing HRIS Training Sessions.

The university appreciates the recommendations made in this report regarding to additional compensation, vacation leave payouts and adjustments, and minimum credit hours for student employees. For those recommendations not already implemented, we will consider the cost effectiveness of implementation as well as alternative solutions for strengthening controls within our operating model.

Additional Compensation Paid to Employees

As allowed by Oregon Administrative Rules (OAR) the UO occasionally provides compensation in addition to regular pay when the employee provides substantial service over and above the regular services expected.

The forms used for processing these types of payments provide space for remarks and justification for amounts requested as well as signature approvals. In reviewing the individual items listed by the auditors the university concluded that all of the items were appropriate and in accordance with the OARs. However, the university agrees that the documentation supporting the justification could have been improved.

The university has previously explored the option of automating programming controls to prevent university department from directly entering and processing payment of stipend, endowments and cash awards. This preventative control has significant system and financial obstacles. However, the university believes that adequate compensating controls exists due to the fact that stipend and endowments are processed through Central Payroll prior to payment. In addition, Central Payroll is currently working on improving detective controls that would allow them to identify any payments that were not processed centrally, as required, as well as identify and review all cash awards input at the departmental level.

Cash Payments for Unused Vacation Leave

The university recognizes the importance of employee vacation benefits as time away from work and does not regularly allow vacation payoffs that are not consistent with state policy. Cash payments for accrued vacation leave are currently approved by Human Resources and processed centrally by the Central Payroll Office.

Secretary of State Audits Division
University of Oregon Review of Selected Operations

University of Oregon Response

Chapter1: Payroll

The university concurs that the twenty payments totaling approximately $17,000 noted by the auditors were not in compliance with state policies. Nine of the payments listed, totaling approximately $13,000, were granted a specific exception by the Office of Human Resources due to extraordinary circumstances.

The cost of modifying the HRIS system to require on-line approval and prevent departments from entering and executing payments for unused vacation leave would easily exceed the cost associated with individual transactions being inappropriately processed and going undetected. The university is currently working on improving detective controls that allow identification of any payments that are not processed centrally as required.

University management will consult with General Counsel regarding the issue of recourse for questioned payments.

Reinstatement of Lost Vacation Hours

The university believes it is appropriate to reinstate lost vacation hours in situations where it is in the best interest of the employee and the university to do so. University management will consult with General Counsel regarding our interpretation of this specific article of the collective bargaining agreement.

Minimum Credit Hours for Student Employees

The university monitors student employee minimum credit hour requirements as established in university policy, Internal Revenue Code, and Immigration and Naturalization Services Regulations. Central Payroll is currently working on improving and expanding reporting tools in this area.

Other Payroll Matters: Untimely Adjustments to Payroll

This issue was the result of a policy change and is not a recurring system. University management will consult with the General Counsel to determine proper course of action.

University of Oregon Response

Chapter 2: Procurement Cards

The university views the Procurement Card Program as an extremely valuable way to cut operating costs related to processing invoices. The Procurement Card Program is designed to provide users with the ability to make specified purchases without requiring pre-approval. Departmental units are held accountable to ensure that users of the procurement cards are following Institutional and Oregon University System policy. Since the time period covered by the audit, the university has and will continue to seek ways to improve training and monitoring of this program.

The university appreciates the recommendations made in this report with relation to the procurement card program. For those recommendations not already implemented, we will consider the cost effectiveness of implementation as well as alternative solutions for strengthening controls within our operating model.

Prohibited and Questioned Procurement Card Transactions & Issuing Credit Cards, Assigning Responsibilities, and Providing Credit Card Security

The university currently provides card custodians with mandatory training and written instruction regarding documentation requirements prior to receiving the card. The Quality Consulting Services team currently reviews documentation, in addition to the log, as a part of their review.

Training materials provided to card custodians subsequent to the time period covered by the audit include specific instruction requiring approved supervisors to review and sign monthly reconciliation statements and supporting documentation. These training materials also provide specific instruction clarifying requirements for card security. These materials state explicitly that the card should be locked when not in use and instruct custodians not to let unauthorized users make purchases with the department's procurement card.

The Procurement Card program is designed to be administratively efficient. A significant amount of central review of supporting documentation is contradictory to that purpose. However, Business Affairs will consider reviewing supporting documentation at a more detailed level in circumstances where it seems appropriate.

The university does not condone the misuse of the procurement card. Management will review the procedure for responding to departmental units where repeated prohibited expenditures are noted.

Business Affairs no longer accepts procurement card agreements that are not signed. Procurement cards are not distributed until the signed agreements are received and the custodian has gone through the mandatory training process.

Secretary of State Audits Division
University of Oregon Review of Selected Operations

University of Oregon Response

Chapter 2: Procurement Cards

Procurement card transactions require review by the approved supervisor. In instances where the approved supervisor is also a designated user, they may not approve their own procurement card purchases. We believe this is a reasonable control to detect and prevent inappropriate card use from occurring. We concur that in the rare instances where all card duties are assigned to one individual, additional review at some level is appropriate.

Frequency of Procurement Card Use

The university generally encourages departments to increase the use of procurement cards to reduce costs and increase efficiencies in the purchasing and payment cycle. The university does not currently monitor for individual cards with low use. We will consider the costs and benefits of monitoring to identify cards with low use.

The university will continue to monitor its record of active procurement cards to ensure cards are kept current. A process exists to ensure departments receive cards ordered and that the credit card company is notified of lost and destroyed cards.

Other Purchasing and Cash Handling Matters: Personal Use of State Funds

The university is committed to a distributed model for financial management. Under this model, departmental units are accountable for compliance with university policies. This management philosophy requires strong communication and training to mitigate the risk that inappropriate transactions will occur.

The university does not condone the misuse of the procurement cards or the personal use of state funds. Management will work with Oregon University System, Internal Audits Division to determine the appropriate course of action regarding the items noted by the auditors.

Secretary of State Audits Division
University of Oregon Review of Selected Operations

University of Oregon Response

Chapter 3: Equipment

Departmental units are held accountable for safeguarding and monitoring equipment. Decisions about safeguarding and tracking minor equipment are left to the discretion of department managers. Since the time period covered by the audit, the university has and will continue to seek ways to improve training and monitoring of equipment.

The university appreciates the recommendations made in this report with relation to equipment. For those recommendations not already implemented, we will consider the cost effectiveness of implementation as well as alternative solutions for strengthening controls within our operating model.

Safeguarding High-Risk Assets

The university does not currently track equipment purchases under $5,000 centrally. Departmental units are responsible for safeguarding and tracking minor equipment. For some smaller departments the benefits of tracking low value assets may not justify the cost. Many departments with significant minor equipment are tracking minor equipment.

The university will consider modifying the Property Control Manual and other training materials to include more guidance for department managers in evaluating their department's risk relative to minor equipment and clearer guidance on what an adequate tracking system should include.

Monitoring Off-Campus Use of High-Risk Equipment

The university requires employees to complete a Property Receipt Form for all assigned equipment located off campus. Management will consider improving procedures and processes to ensure this is occurring more consistently.

Protecting Equipment Loaned to Students

Management will consult with appropriate departmental personnel to ensure reasonable procedures are in place to adequately safeguard equipment loaned to students.

Maintaining Inventory Records

As indicated by the auditors, there was a backlog in removing fixed assets from the database for the time period covered by the audit. Subsequently, the fixed asset database has been made current. Business Affairs is currently in the process of updating and revising the Property Control Manual to further clarify information regarding obtaining, maintaining, and disposing of fixed assets.

Secretary of State Audits Division
University of Oregon Review of Selected Operations

University of Oregon Response

Chapter 3: Equipment

Other Matters: Categorizing Purchases

The university is provided with standard account codes to categorize fixed assets. The account code structure is complex in order to meet various reporting needs. In any system of tracking there is always the risk that individual transactions will be miscoded. Some of the fixed asset account codes are currently being revised in order to meet new reporting standards. This will provide an additional opportunity for the university to communicate with departments regarding the proper use of account codes.

Chapter 4: Separation Procedures

The university has considered the feasibility of automating notification when employees separate from employment with the university. Management will continue to explore this option and look for cost-effective ways to ensure appropriate procedures are in place. We will also look for ways to increase the use of the Quality Assurance Consulting Services checklist.

Secretary of State Audits Division
University of Oregon Review of Selected Operations

University of Oregon Response

Chapter 5: Foundation

The UO Foundation is a legally separate, 501 (c) (3) corporation that 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 UO Foundation are founded in the premise that the university and the UO Foundation are inseparable, and therefore all funds in that private corporation are to be treated as public funds. UO Foundation funds are private and not subject to state audit.

Scope Limitation

The UO Foundation contracts annually for its own audit, as do most private corporations. Its audit report and annual report of activities are made public, available to anyone who requests them.

Need to Retain Gift Fund Expenditure Records

The UO currently requires department administrators to maintain financial records in compliance with Oregon Administrative Rules. The UO will review those requirements to determine the proper retention of financial records related to Foundation expenditures.

The UO is committed to a distributed model for financial management and business transaction processing. We do not believe that maintaining records of departments' gift fund expenditures centrally would increase accountability or improve management efficiency.

Recording and Reporting all Transactions with the Foundation

UO has procedures in place for processing and recording all university transactions involving Foundation funds. The university disagrees that its procedures for recording transactions with the foundation are in conflict with a basic principle of financial accounting. 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 UO Foundation.

Need to Define Allowable and Unallowable Uses of Gift Funds

The examples cited in the auditor's report relate to transactions processed at the UO Foundation. The state policies cited by the auditors do not apply to transactions processed at the UO Foundation. These funds are private, not state monies. The UO does not establish policy on the use of gift funds processed at the UO Foundation. The UO Foundation ensures that its gift fund expenditures are in compliance with donor intentions.

It is the responsibility of department administrators to determine the appropriateness of expenditures. In some instances expenditures that are appropriate from a business standpoint are not allowable by the state.

The university requires department administrators to maintain records of fringe benefits purchased for university employees and has procedures in place for proper tax reporting. In some

University of Oregon Response

cases expenditures that appear to be fringe benefits are exempt due to specific business related circumstances.

Other Matters: Need to Update Formal Recognition

The President has formally recognized the foundation in a letter dated July 10, 2000. The Foundation adopted resolution of acceptance on June 9, 2000.

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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.

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STATE OF OREGON

THE UNION

1859