

Secretary of State **AUDIT REPORT**

Report No. 2002-22 • June 06, 2002

Department of Land Conservation and Development: Change of Director Audit



Bill Bradbury, Secretary of State
Cathy Pollino, Director, Audits Division

Summary

PURPOSE

The Audits Division regularly performs an audit or review when the executive head of a state agency leaves that position for any reason. Richard Benner was appointed Director of the Department of Land Conservation and Development (department) on November 1, 1991, and resigned from that position effective July 27, 2001. Subsequent to Mr. Benner's separation, the department hired Bill Blosser to act as interim director until another permanent director was hired on February 1, 2002.

The purpose of this audit was to assure that appropriate actions were taken to cancel the above directors' access to state systems, return any state assets in the directors' possession, and assure that recent transactions authorized by them were reasonable and complied with appropriate laws and regulations. In addition, we reviewed the status of the department's efforts to resolve prior audit findings relating to our audit objectives.

RESULTS IN BRIEF

The department took appropriate actions to cancel access to state systems and retrieve state assets. The department had not implemented procedures, however, to submit the

interim director's financial transactions to the Land Conservation and Development Commission (commission) for review and approval prior to payment. In addition, the department's staff responsible for soliciting personal services contracts was not adequately trained in state contracting rules.

We also communicated minor issues and recommendations to the department in Management Letter No. 660-2002-04-01, dated April 18, 2002.

RECOMMENDATIONS

We recommend that the department:

- Establish procedures to submit financial transactions of the director to the commission for review and approval;
- Provide staff with training in state contracting policies to ensure compliance with state contracting rules.
- Provide better controls over cash receipting processes.

AGENCY RESPONSE

The Department of Land Conservation and Development generally agrees with the audit recommendations.

Background

The Department of Land Conservation and Development (department) is the administrative arm of the Land Conservation and Development Commission (commission). The department administers Oregon's statewide land-use planning program, which focuses on rural, coastal, and urban planning goals. The department has also partnered with the Oregon Department of Transportation to administer the transportation and growth management program.

The commission is composed of seven members appointed by the governor and confirmed by the senate. The commission appoints the department's director.

Audit Results

The department took appropriate action to cancel the former and interim directors' access to state systems and to ensure that assigned assets were returned upon the directors' separation from service. We noted areas, however, where improvements could be made in the review and approval of the director's financial transactions and in training staff responsible for soliciting personal service contracts.

Commission Oversight Needed for Director's Financial Transactions

Oregon Accounting Manual 10.90.00 requires the financial transactions of an agency head

appointed by a commission to be reviewed and approved by that commission. The policy allows the commission to delegate this authority to a chief financial officer or second-in-command.

The policy refers to financial transactions such as time reporting, vacation payoffs, use of exceptional performance leave, travel expense reimbursement claims, and procurement card purchases.

Commission approval of the director's financial transactions is intended to ensure that these transactions are reviewed for completeness and accuracy and that they are in compliance with state laws and regulations.

We found that travel reimbursement claims and payroll

timesheets of the interim director were not reviewed or approved by the commission because the department had not established procedures for submitting these transactions to the commission. We also determined that the commission had not delegated approval authority to the department. As a result, the potential exists for errors, inappropriate transactions, and overpayments to occur. For example, the department overpaid the interim director \$276 for non-reimbursable travel expenditures. Prior to our audit, department staff identified the overpayments and recovered the funds from the interim director.

We recommend that the department establish procedures to submit financial transactions of the director to the commission for its review and approval prior to making payment.

Agency's Response:

In March of 2002 the Land Conservation and Development Commission (LCDC) appointed a Finance Sub-Committee that will review and approve financial transactions of the agency head to ensure that these transactions are reviewed for completeness and accuracy and that they are in compliance with state laws and regulations. The department will establish procedures to submit financial transactions of the director to the subcommittee for its review and approval prior to making payment.

Training Needed for Contracting

Personal services contracts are used when required specialized skills, knowledge, and resources are not available within the agency. Requirements for soliciting contractors are found in Oregon Administrative Rule 125-020-0330. This rule requires agencies to use an informal solicitation process if a personal service contract price is not

more than \$75,000. The informal process requires the solicitation of responses or proposals from at least three qualified contractors offering the required services.

We found that the department did not solicit the required responses or proposals for four personal service contracts subject to the informal process. Instead, the department issued these contracts as sole source contracts.

Department staff responsible for selecting contractors was not aware of the solicitation rules for these contracts. By not applying the correct solicitation procedures, the department may have limited its opportunities to obtain the best services for the lowest price.

We recommend that the department provide its staff with training in state contracting policies to ensure compliance with state contracting rules.

Agency's Response:

The department will ensure that personnel working with contracts will be fully trained in state contracting policies. All sole source contracts will be reviewed and approved by the director.

Update on Prior Audit Recommendations

We reviewed the department's efforts to address prior audit recommendations that were significant to this audit. These recommendations were published in our 1997 audit report, *Department of Land Conservation and Development Special Review*, Report No. 97-28. This section summarizes the results of our review.

Recommendation:

Strengthen controls over the cash receipting process. Checks should be recorded correctly when received and restrictively endorsed. Deposits should be processed in a timely manner, and

cash receipting duties should be assigned to different staff members to maintain adequate segregation of duties.

Partially Implemented—The department has improved its procedures to restrictively endorse checks upon receipt and process them in a timely manner. However, cash receipting responsibilities have not been assigned to separate staff members to maintain adequate segregation of duties. For example, only one employee was responsible for opening the mail and preparing a list of cash or checks received. In addition, another employee prepared the deposit slips, took the deposits to the bank, and recorded the deposits in the department's accounting system.

Cash handling should be separated from record keeping in accordance with *Oregon Accounting Manual* 10.20.00.

Additional Action Recommended—**We recommend** that the department separate the cash receipting responsibilities.

Agency's Response:

The agency will strengthen the controls over its cash receipting procedure to maintain adequate separation of duties. Procedures are implemented to provide independent review and approval of employee purchases. Responsibilities for purchasing and physical inventory of supplies have been separated.

Recommendation:

Employees should obtain supervisory approval prior to making purchases and duties related to purchasing, receiving, and maintaining physical custody of supply items should be assigned to different employees.

Implemented—The department has implemented procedures to provide independent review and approval of employee purchases of supply items. In addition, the department has separated the responsibilities of

purchasing and physical inventory of supplies.

Objectives, Scope and Methodology

The Audits Division regularly performs an audit or review when the executive head of a state agency leaves that position for any reason.

Our audit objectives were to assure that appropriate actions were taken to cancel the former and interim directors' access to state systems, to retrieve any assets assigned to them, and to assure that transactions they authorized were reasonable and complied with applicable laws and regulations. In our review, we included transactions from the former and interim director's last six

months of service, January 2001 through July 2001 and August 2001 through January 2002, respectively. Specifically, we:

- Reviewed the former and interim directors' access to state systems to assure proper termination;
- Reviewed asset listings to determine whether assets assigned to the former and interim directors were returned to the department upon separation;
- Reviewed travel and other reimbursements payable to the former and interim directors during their final six months of service;
- Reviewed salary payable to or directly authorized by the former and interim directors during their

final six months of service. We also reviewed vacation time accrued and paid; and

- Reviewed contracts authorized by the former and interim directors.
- Performed follow-up procedures on recommendations that were significant to the scope of this audit from a prior Audits Division report titled, *Department of Land Conservation and Development Special Review*, Report No. 97-28.
- We performed the audit according to generally accepted government auditing standards.

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

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The courtesies and cooperation extended by the officials and staff of the Department of Land Conservation and Development were commendable and much appreciated.

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