



# Secretary of State Audit Report

## Lincoln County Communications Agency: Former Director Investigation

### Summary

#### PURPOSE

The purpose of our investigation was to follow up on allegations regarding inappropriate business practices by the former director of the Lincoln County Communications Agency (LinCom).

#### RESULTS IN BRIEF

Our investigation substantiated the allegations of inappropriate business practices. We found that the former director took more in payroll draws than she was entitled and did not make timely repayments for the payroll draws. We also question approximately \$4,000 in expenses incurred by the former director for which no supporting documentation was available to demonstrate a related business purpose.

#### RECOMMENDATIONS

We recommend the Lincoln County Communications Agency Executive Committee (Executive Committee) take the following actions:

- Consider ceasing payroll draws or limiting payroll draw activities to emergency situations, as defined by the Executive Committee.
- Resolve questioned overpayment of expense reimbursement of the former director and payroll draw balances due to/from agency employees. This may require LinCom to review payroll records prior to July 1999.
- Implement a process to ensure a thorough review is performed of supporting documentation relating to payroll and expense reimbursements before signing checks.
- Limit access to check stock to those who do not have check signing authority.
- Prohibit the director from being an authorized signer on any check where he/she is the payee.
- Immediately reconcile the checking account and continue to reconcile monthly.

We also recommend the Executive Committee consider reevaluating its current processes over the accounting functions to determine the appropriate mechanisms needed to ensure management's intent is carried out. At a minimum, the Executive Committee should consider:

- Providing formal bookkeeping training for employees assigned daily accounting responsibilities if the responsibilities remain within LinCom.
- Requiring the accounting firm responsible for payroll processing and financial statements to directly communicate with the Executive Committee.
- Determining whether the daily accounting responsibilities are better facilitated by another unit outside LinCom but within county operations.

#### AGENCY'S RESPONSE

The Executive Committee generally agrees with the recommendations. Their general response follows and specific responses to recommendations are within the body of the report.

*It is important to note that the current representatives on the LinCom Executive Committee are all new in the past year. The long time Newport City Manager and County Commissioner representatives during the time period of this investigation are no longer in their positions. The new committee has learned a lot from this investigation and has dedicated many hours to insure that problems in the past will not be allowed to occur in the future.*

*As a result of the investigation of the business practices at LinCom and our own review of Agency procedures and practices, we will be examining and implementing a number of changes in the Agency's financial operations. First and foremost, an outside consultant is conducting an operational audit to determine the best practices for management of similar emergency communication services. We expect recommendations in that study will have fiscal and management implications that will strengthen and expand our financial accountability. Second, we will be reviewing our accounting and auditing services and contracts to provide better separation, communication and review of those services by all involved. Finally, we will determine if placement of a portion or all of the accounting functions within one of the member municipal agencies is feasible and would result in better service or, alternatively, contracting those functions out to a professional firm.*

## Introduction

Emergency calls are answered and emergency services are dispatched through a 9-1-1 system that is jointly managed by state and local authorities. A telephone tax provides funding for the 9-1-1 system. The state allocates a portion of the tax proceeds to cities and counties.

The Lincoln County Communications Agency (LinCom) is a full service public safety answering point and dispatch facility serving portions of the population of Lincoln County. LinCom was established in May 1983 and has been in continuous operation since its inception. On average, LinCom employs 15 staff, including a director, operational staff, communications staff, and clerical staff. The Lincoln County Communications Agency Executive Committee (Executive Committee) is responsible for overseeing LinCom's financial and personnel issues.

The director (now former director), originally hired as a dispatcher, was hired by the Executive Committee on June 27, 1989, as the director of LinCom.

On July 12, 2005, the Executive Committee placed the former director on administrative leave with pay, pending completion of the investigation. The former director subsequently submitted her resignation effective November 1, 2005.

## Allegation and Investigation Background

In June 2005 the Audits Division received notification from the Oregon State Police regarding allegations of inappropriate business practices by the former director of LinCom.

In response, we started an investigation of the LinCom former director's payroll draw records and expense reimbursements.

## Investigation Results

In our investigation of payroll draw records and expense reimbursement records, we found that LinCom did not have adequate internal control over payroll and expense transactions to ensure items were appropriate, properly recorded, and adequately supported. Our investigation identified excessive and inappropriate use of payroll draws and insufficient supporting documentation for expense reimbursements claimed by the former director.

### Excessive Payroll Draws

We reviewed payroll draws from July 1999 through June 2005. During this time period, LinCom processed approximately 2,260 regular payroll checks and 415 payroll draw checks. We found that controls over payroll draws are not adequate to ensure draws are limited to allowed amounts and are repaid timely.

LinCom pays payroll on a semimonthly basis. The payroll cut-off dates for calculation of time worked and overtime are the 15<sup>th</sup> and the last day of each month. Payroll distribution dates are the 4<sup>th</sup> and 19<sup>th</sup> of each month. Employee payroll forms that include calculated hours from the timesheet as well as payroll draw documentation are forwarded by the bookkeeper to an accounting firm for processing.

The former director set in policy that payroll draw requests may be requested between regular payroll periods. The policy states that requests must comply with the following conditions:

- Payroll draw requests will not be approved for more than 70 percent of what is owed the employee in salary and overtime at the time of request.
- Payroll draws will be scheduled to be repaid in full with the next payroll processing.

Payroll draws are written on checks maintained in LinCom's office. LinCom's check policy requires two signatures on all checks, one by the director and the other by an approved signer, which includes the Newport City Manager and Executive Committee members.

We reviewed the payroll draws of the former director from July 1, 1999, through June 30, 2005, to determine compliance with LinCom's payroll draw policy and procedures.

During the six-year period reviewed, the former director received 144 semimonthly payroll checks. In addition, during this time period, she received 88 payroll draw checks totaling \$78,340. We found that the former director's payroll draws did not always comply with LinCom's payroll draw policy. Due to insufficient controls over payroll, the former director was able to circumvent the payroll draw policy. Specifically, we noted that her payroll draws were not always repaid in full with the next payroll processing as required. For example, the former director drew \$6,400 more in payroll draws than was repaid in her regular payroll in 2000. The payroll draw balance was not fully repaid until 2003.

As of the end of calendar year 2004, a similar situation occurred in which the former director received \$1,640 more in payroll draws than was repaid in her regular payroll. This situation existed in part, because the former director, on occasion, asked the

bookkeeper not to forward her draw information for processing.

The former director made payments to LinCom of \$4,850 in February 2003 and \$3,600 in April 2005 to repay her excessive payroll draw balances.

During our review of the former director's payroll draws, we also noted the following:

- The former director did not always comply with payroll policy that limited payroll draws to 70 percent of earned salary. For example, in October 2004 she received a payroll draw of \$1,500 when 70 percent

of her earnings at the time of the draw totaled \$669.

- On two occasions, the former director took more in payroll draws than her pay during the pay period. For example, in July 2004 she received a draw for \$1,500 and one day later she received a second draw for \$1,600. Draws totaled \$3,100 for the period when her pay for the period was only \$2,475.
- The former director periodically made two payroll draws in the same pay period. In one instance, two draws were made the same day. The former director was one of the signers on the checks, but each check

had a different second signer. In several instances, draws were taken several days apart. For example, in May 2005, she received a draw for \$1,200 and a second draw for \$500 four days later.

The following table shows the draws taken, draws repaid through regular payroll, personal repayments, the difference between the draws taken and any repayments, and the running balance. While the period under review shows that the former director overpaid, we did not review the draw status prior to July 1999.

<b>LinCom's Former Director's Payroll Draws</b>					
<b>July 1999 Through June 2005</b>					
Calendar Year	Payroll Draws Taken	Draws Repaid Through Payroll	Personal Payroll Draw Repayments	Difference Between Draws and Repayments (overpayment) underpayment	Running Balance (overpayment) underpayment
1999	\$3,000	\$3,000	–	–	–
2000	14,550	8,150	–	6,400	6,400
2001	7,390	8,000	–	(610)	5,790
2002	2,300	2,300	–	–	5,790
2003	8,100	10,600	4,850	(7,350)	(1,560)
2004	32,800	29,600	–	3,200	1,640
2005	10,200	9,200	3,600	(2,600)	(960)
<b>Totals</b>	<b>\$78,340</b>	<b>\$70,850</b>	<b>\$8,450</b>	<b>\$(960)</b>	

### **Expense Reimbursements Not Supported**

We reviewed the former director's expense reimbursements for the period January 1, 2003, through June 30, 2005, to determine if all expenses reimbursed by LinCom to the former director were properly supported and appeared to have a legitimate business purpose. We question approximately \$4,000 (59 percent) of the \$6,824 expense

reimbursements paid to the former director during this review period.

LinCom reimburses staff for authorized business expenses, which mainly consist of travel related expenses. Specifically, LinCom reimburses employees for lodging costs and for the actual cost of meals while on official business, not to exceed \$25.00 per day with receipts, and a maximum of \$13.00 per single meal. Employees are to complete an expense reimbursement form showing the

date, explanation, amount, and total reimbursement. An employee is to sign the form and by doing so indicates the expenses or costs were paid by him/her, on behalf of LinCom, for training, travel or other authorized purchases, while on official business or on behalf of LinCom as authorized. The form also requires authorization. However, based on interviews with agency staff, the authorization is intended to indicate who processed

the request and not necessarily indicate approval.

For the period reviewed, we question approximately \$4,000 in expense reimbursements. Specifically, we found:

- The former director was reimbursed for approximately \$4,000 in expenses for which she did not provide itemized receipts. The claimed expenses included travel, meals, conference attendance, office supplies, a vacuum, and air ionizer units.
- In four instances, the former director did not complete an expense reimbursement form nor could she provide reasonable explanation for the reimbursement requests totaling \$182, \$328, \$173, and \$341.
- The former director claimed and was reimbursed for meals that were provided with a paid conference registration, for meals that exceeded the allowed per diem, and for expenses that did not appear to have a business purpose.
- In one instance, the former director submitted and received payment for an expense reimbursement that was added incorrectly and included a cellular phone charge, which had already been reimbursed the previous month. Total overpayment in this instance was \$125.

### Internal Control Weaknesses

An adequate system of internal control includes various mechanisms intended to prevent, detect, and deter unauthorized or inappropriate transactions from occurring. During our investigation, we identified several internal control weaknesses needing the Executive Committee's attention. Specific weaknesses include:

- Authorized signers approved payroll draw and expense reimbursement checks without reviewing supporting documentation.
- Check stock was not adequately secured.
- The process for communicating draw information for payroll processing was informal and, on occasion, did not ensure all information was forwarded to the accounting firm for processing. As a result, of the 21 LinCom employees employed during the review period, we found that eight received payroll draws on a regular basis (monthly) and some may have a balance owing to LinCom for payroll draws taken but not repaid.
- Inadequate segregation of responsibilities existed in that the former director had access to and could write checks without the bookkeeper's knowledge.
- The bookkeeper indicated that she had not received any formal training for the bookkeeping responsibilities.
- The accounting firm did not communicate concerns identified in the annual audit directly to the Executive Committee.

We also found that LinCom utilizes an automated accounting system for maintaining its checking account information. We obtained an electronic copy of the data to utilize as evidence during our investigation. However, we found that the data was unreliable and procedures were insufficient to ensure adequate accountability. Specifically, we found:

- The checking account had not been reconciled since at least July 1999, and several of the bank statements had not been opened prior to our investigation.

- Some checks that cleared the bank were not entered into the accounting system.
- No deposit information was entered into the accounting system since July 2003.
- Some checks listed in the accounting system differed in amount to the bank statement.

Without an appropriate system of controls in place, the Executive Committee is less able to ensure expenses are appropriate and properly recorded.

### Recommendations

**We recommend** the Executive Committee take the following actions:

- Consider ceasing payroll draws or limiting payroll draw activities to emergency situations, as defined by the Executive Committee.

#### **Agency's Response:**

*LinCom has discontinued payroll draws (September) and will not reinstate draws.*

- Resolve questioned overpayment of expense reimbursement of the former director and payroll draw balances due to/from all agency employees. This may require LinCom to review payroll records prior to July 1999.

#### **Agency's Response:**

*The former Executive Director resigned her position, which was accepted by the Executive Committee. In that process, payroll and expense issues were resolved. Payroll draw balances with other employees will be reviewed and resolved before the end of the fiscal year.*

- Implement a process to ensure a thorough review is performed of supporting documentation relating to payroll and expense

reimbursements before signing checks.

**Agency's Response:**

*LinCom has implemented a process for both staff and Executive Committee review of the documentation of both payroll and expense reimbursements. Both payroll and expense checks must be authorized by at least two members of the Executive Committee.*

- Limit access to check stock to those who do not have check signing authority.

**Agency's Response:**

*The checks have been placed in locked storage with limited access.*

- Prohibit the director from being an authorized signer on any check where he/she is the payee.

**Agency's Response:**

*The Executive Committee removed the Executive Director as an authorized signer on all payroll and expense checks. All payroll and expense checks must now be signed by two members of the Executive Committee.*

- Immediately reconcile the checking account and continue to reconcile monthly.

**Agency's Response:**

*This recommendation will be implemented immediately.*

We also recommend the Executive Committee consider reevaluating its current processes over the accounting functions to determine the appropriate mechanisms needed to ensure management's intent is carried out. At a minimum, the Executive Committee should consider:

- Providing formal bookkeeping training for employees assigned daily accounting responsibilities

if the responsibilities remain within LinCom.

**Agency's Response:**

*If the accounting function remains internal, formal training will be obtained for appropriate employees.*

- Requiring the accounting firm responsible for payroll processing and financial statements to directly communicate with the Executive Committee.

**Agency's Response:**

*A meeting will be scheduled with the auditor and the Executive Committee in February 2006. This recommendation will be implemented immediately.*

- Determining whether the daily accounting responsibilities are better facilitated by another unit outside LinCom but within county operations.

**Agency's Response:**

*We will consider the feasibility of using either the county or City of Newport Finance Departments or contracting the service with an outside firm.*

as determined appropriate to the situation.

We conducted our fieldwork from July 2005 to November 2005.

## Objective, Scope and Methodology

The purpose of our investigation was to follow up on allegations regarding inappropriate business practices by the former director at LinCom.

We obtained and reviewed expense reimbursement and payroll documentation from LinCom as well as payroll documentation from their accounting firm.

We obtained and reviewed bank statements and canceled checks.

We also interviewed LinCom employees, members of the Executive Committee, and others



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*The courtesies and cooperation extended by the officials and staff of the Lincoln County Communications Agency were commendable and much appreciated.*

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