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*Auditing for a Better Oregon*

December 23, 2002

Bob Mink, Director  
Department of Human Services  
500 Summer Street NE, E 15  
Salem, OR 97302-1097

Dear Mr. Mink:

During our audit of contracting practices, in addition to those items on which we reported, we noted the following issues that we felt should be brought to your attention.

**Background**

The amount threshold that triggers the requirement for Department of Justice review of contracts is \$75,000. We noted that there were many departmental contracts that were written "not to exceed \$75,000." Often, this practice appeared to be used not because it reflected the expected cost of the contracted goods or services but, rather, because it was the maximum allowable without requiring additional processing steps. While this practice minimizes the need to amend contracts for cost overruns, it fails to provide an effective tool to control spending by not setting a reasonable upper limit. An additional benefit of having a contract's not to exceed amount reflect a realistic estimate of contract costs is that forecasting and tracking future contract obligations is possible.

**We recommend** that the department consider the potential use of contract amounts in controlling costs and in developing budgets, and require that contracts more accurately reflect their expected costs.

**Background**

Although the use of contract templates can be an effective way to ensure compliance with rules and streamline contract writing, we found that the use of templates was not well managed. We noted that rewriting the adult foster home contract template has been underway since about 1997. The template in use does not contain required contract elements such as not to exceed amounts or recommended items such as insurance coverage. A template was developed and ready for use in 1999, but its implementation was postponed when it was decided to develop a standard template for use by other programs that also contract for foster care. The inadequate template has continued to be used while the template is being revised. Further, we noted that adult foster care contracts

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issued using the current template process caused the contracts not to be listed in the department's central record of contracts.

**We recommend** that the department:

- Identify and evaluate templates currently in use. Usage of inadequate templates should be discontinued.
- Monitor contract templates and their use to ensure that templates are updated, current and used appropriately.
- Ensure that all contracts are listed centrally.

### **Background**

We noted problems in 1099 record-keeping and reporting. For example, we found one program that made adjustments to the amount to be reported for a provider who had two provider numbers. During the process of combining the payments for reporting on one 1099, an error was made and the result was an overstatement on the 1099 of \$553.50. The program could not provide documentary evidence to support the adjustment that was made.

In the analysis above, we also noted what appeared to be a object coding error. What appeared to be similar childcare provider payments had different object codes (981432 and 981430). In reviewing payment to contractors for travel expenses, we noted a similar phenomenon. Depending on which approach and code is used, contractor's travel expenses reimbursements would be coded as either travel expense reimbursement alone, or component part of professional fees, which would make them 1099 reportable. It was unclear as to when one criteria or the other was applied.

**We recommend** that the department develop procedures to assure compliance with the rules for, and accuracy of, 1099 reporting. The department should consider:

- Retention and review of documents supporting adjustments to ensure identified inaccuracies have been properly corrected, and
- Uniform treatment and coding of items such as contractor reimbursements.

Should you have any questions regarding these issues, please feel free to call me or Darcy Johnson at 986-2255.

Sincerely,  
OREGON AUDITS DIVISION

Charles A. Hibner, CPA  
Deputy Director

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