



Auditing for a Better Oregon

April 8, 2003

Marty Brantley, Director
Oregon Economic and Community Development Department
775 Summer Street NE
Salem, Oregon 97301-1280

Dear Mr. Brantley:

We have completed an audit of the Oregon Economic and Community Development Department (department) to comply with Oregon Revised Statute 297.210, which requires the Secretary of State to perform an audit or review when the executive head of a state agency leaves their position for any reason. The former director, Bill Scott, resigned from the department on July 31, 2002. The deputy and assistant shared the director responsibilities until the interim director began September 1, 2002. The interim director, Katy Coba, separated from the department on January 31, 2003.

Our objective was to ensure that appropriate actions were taken to protect state assets when the former director and interim director separated from the department. We determined whether assets assigned to them were returned; their access to state and automated systems was terminated; travel and other reimbursements submitted by them during their final six months of employment were appropriate and in compliance with applicable laws and regulations; their recent payroll disbursements and leave accruals were appropriate and accurate; and recent personal service contracts entered into during their service were in compliance with applicable laws and regulations.

We found that the former director and interim director's access to state and automated systems was terminated and their recent payroll disbursements and leave accruals were appropriate and accurate. We also identified the following issues that warrant management's attention.

Controls Over Fixed Assets Could be Improved

State policy¹ places responsibility with department management to ensure that internal controls are sufficient to provide reasonable assurance that state assets are not lost or stolen. During our audit of fixed assets, we noted the following weaknesses:

¹ Oregon Accounting Manual Policy 15.55.00.PO.102

Management Letter No. 123-2003-04-01

- The database the Information Services Section uses to track assets was not complete or accurate;
- Physical access to computers and non-capital assets was not adequately restricted or controlled;
- The Information Services Section has not performed a regular periodic inventory of non-capital assets;
- Surplus records were incomplete; and
- Although the department was able to provide supporting documentation that assets assigned to the former director and interim director were returned, such as cell phones and key cards, the department was unable to provide support for the specific laptop issued to and returned from the former director.

We recommend that management further develop, document, and implement controls over computers and other non-capital assets to address the weaknesses noted above.

Personal Use of State Resources

State policies² place narrow limits on the personal use of state assets. During our audit, we concluded that department management had not provided sufficient guidance or training to employees on the separation of personal and business activities when using state resources. We noted that the former director and interim director used state assets for personal activities. Specifically, the former director used state credit and staff resources to purchase personal airfare on two occasions. The former interim director used the state cell phone and calling card for numerous personal calls beyond those allowed by state policy. In all instances identified, the former director and interim director reimbursed the department for their personal expenses.

We recommend that management inform all employees of the proper use of state resources and the importance of keeping personal and business activities separate, with reminders or updates on a periodic basis.

Review of Travel Claims Could be Strengthened

We reviewed the travel claims of the former director and interim director during their final six months of service and found that some travel claims were inaccurate or incomplete. While department policies and procedures state that travel expense detail sheets are to be reviewed by the employee's supervisor, the accounts payable accountant and the fiscal accountant, we found that those individuals did not perform a thorough review. For example, one travel claim, that had been approved and paid, requested reimbursement for lodging while the attached lodging receipt stated that the cost had already been billed directly to the department.

² Oregon Accounting Manual Policy 40.20.00.PO.110, Oregon Statewide IT Policies 1.3, and Oregon Accounting Manual Policy 40.10.00.PO.105

We recommend that management ensure a thorough review of travel claims is performed.

Contracting Rules are not Always Followed

Oregon Revised Statutes state that the department's chief executive is responsible for ensuring compliance with personal service contracting rules.³ The department is responsible for complying with the Department of Administrative Services' rules⁴ over personal service contracting, which require specific file documentation as well as documentation of the review, evaluation, ranking and basis for selection for all proposals received. We found that the department did not always comply with all personal service contracting rules and that contract files did not contain all the necessary supporting documentation. Specifically, the department did not always document its review and evaluation of proposals or the ranking and basis for selection of the proposals.

We recommend that management follow established contracting rules and ensure all required documentation is generated and maintained.

We conducted our audit in accordance with generally accepted governmental auditing standards. We will follow up on these recommendations during our subsequent annual audits of the Water Fund and Special Public Works Fund.

Should you have any questions concerning these issues, feel free to contact Kristina Wayland or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Nancy L. Young, CPA, CISA
Audit Administrator

NLY:jas
cc: Gary Weeks, Director, Department of Administrative Services

³ Oregon Administrative Rule 125-020-0110(1)

⁴ Oregon Administrative Rule 125-020-0510, 125-020-0320(2)(d) and (e), and 125-020-0330(4)

April 24, 2003

Cathy Pollino, CGFM
Director, Audits Division
Office of the Secretary of State
225 Capitol Street NE Suite 500
Salem, Oregon 97310



Dear Ms. Pollino,

We are in general agreement with the audit findings and recommendations. In response to your suggestions, the department has undertaken corrective actions in each area. They are addressed in greater detail below:

Finding: Regarding controls over fixed assets.

Auditor's Recommendation: Agency management should further develop, document and implement controls over computers and other non-capital assets to address weaknesses.

Agency Response: The agency agrees with the finding and recommendation. Procedures to strengthen controls over computers and other assets will be updated to include better physical control, periodic inventory review and improved surplus property records. The asset database tracking computers and electronic devices has been updated for completeness and accuracy. A periodic inventory is planned for June 2003 and will be established annually. Spare and surplus computer equipment will be secured in a locked room and included in the asset database until disposition.

Finding: Regarding personal use of state resources.

Auditor's Recommendation: Agency management should inform all employees of the proper use of state resources and the importance of keeping personal and business activities separate, with reminders or updates on a periodic basis.

Agency Response: The agency agrees with the finding and recommendations. The department has communicated the appropriate use of state resources to all staff. Internal policy has been updated to assure a separation between personal and business use of state resources including phones, calling cards, computers, computer systems and charge cards. Internal written procedures and monitoring have also been strengthened. The agency plans to incorporate use of state resources in new employee orientation and provide periodic training to all staff.



Finding: Regarding travel claims.

Auditor's Recommendation: Agency management should ensure a thorough review of travel claims is performed.

Agency Response: The agency agrees with the finding and recommendation. The department has established stricter procedures for processing travel claims. These include standard documentation of foreign exchange rates, strengthened audit review of all claims and one training session has been given to support staff on Oregon Accounting Manual travel rules. The department is in the process of updating internal policies regarding travel and will be delivering training to all staff in the near future

Finding: Regarding contracting rules.

Auditor's Recommendation: Agency management follow established contracting rules and ensure all required documentation is generated and maintained.

Agency Response: Agency management and contracting staff have reviewed existing contracting policies and procedures. It should be noted that the auditors found no problems with the department's oversight of contractor performance nor payment related to approved contracts. We are in the process of developing new directives and an internal guideline manual to strengthen contracting procedures and file documentation. A work plan is in place to complete these tasks.

We appreciate the professional work of your team involved in the audit. If you have any questions about our response, please do not hesitate to contact me.

Sincerely,


Marty Brantley
Director