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Auditing for a Better Oregon

July 31, 2003

Jean Thorne, Director
Department of Human Services
500 Summer Street NE
Salem, Oregon 97301

Dear Ms. Thorne:

During our audit of capital and non-capital assets at the Department of Human Services, Mental Health and Addiction Services Program, we noted certain issues that we believe deserve your attention. These issues are of lesser significance and did not warrant inclusion in our report. The issues are summarized below, along with our recommended actions.

Oregon State Hospital Capital Outlay Reconciliation

We found that the Oregon State Hospital (hospital) does not perform quarterly reconciliations of capital outlay costs for real property and infrastructure between the subsidiary records and the general ledger. State policy requires capital outlay expenditures to be reconciled to additions to the property ledger quarterly. It also requires subsidiary records to be reconciled to the general ledger control accounts at least quarterly.

We recommend that the department perform capital outlay and subsidiary to general ledger reconciliations on a quarterly basis.

Infrastructure Classification at Oregon State Hospital

We identified assets that appear to be misclassified. The hospital has several assets, with a total acquisition value of $395,876, which are included in the general ledger accounts for land improvements, buildings, and building improvements, whose descriptions appear to indicate that they should be classified as infrastructure.

We recommend that the department review cost descriptions in the worksheet used for listing values in the general ledger accounts. Cost descriptions that indicate the costs should be classified as infrastructure should be investigated according to the guidance provided in state policy. Those costs determined to pertain to infrastructure should be reclassified accordingly.

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Government-wide Reporting Fund Controls

The department reports capital assets with an original acquisition value of approximately $1.9 million in the government-wide reporting fund. We found that controls over the government-wide reporting fund could be improved. Specifically, we noted that the employee who performs the reconciliation between the property records and the general ledger also conducted the physical inventory. To ensure against the opportunity for any individual to be in the position to both perpetrate and conceal errors or fraud in the normal course of duties, state policy requires separation of the record keeping and custody functions for capital assets. We also noted that the department had inadequate inventory policies and procedures. Inventory policies and procedures are important as they help ensure that the inventory is accurate and complete. The policies and procedures should include information on documenting and following-up on assets discovered to be missing as a result of the inventory.

We recommend that the department:

- Revise and implement policies and procedures defining functional responsibilities for capital assets in the Government-wide reporting fund in order to maintain proper segregation of duties for capital assets. In addition, we recommend the department assign the responsibility for custody of the assets to an individual who does not have any accounting responsibilities.

- Establish and implement written policies and procedures for conducting a physical inventory of capital assets reported in the Government-wide reporting fund and for documenting and following-up on assets identified by the inventory as missing.

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

Sincerely,
OREGON AUDITS DIVISION

Jason M. Stanley, CPA
Audit Administrator

JMS:brk