



Auditing for a Better Oregon

November 5, 2004

Laurie Warner, Acting Director
Department of Administrative Services
155 Cottage Street NE
Salem, Oregon 97301-3966

Dear Ms. Warner:

The statewide single audit of selected Department of Administrative Services programs in the statewide central service cost allocation plan for the year ended June 30, 2004, has been completed.

We determined whether the Department of Administrative Services substantially complied with certain federal requirements relevant to the statewide central service cost allocation plan and tested fiscal year 2004 revenues and expenses through January 2004 for the following programs in the plan:

State Controller's Division	Workers' Compensation Insurance
State Motor Pool	Property Insurance
Computer Services	Liability Insurance
Telecommunications	Mail Service
Rental of State Owned Buildings	

Based on our audit, we identified certain conditions needing corrective action. Our findings and recommendations are presented in the enclosed Audit Findings and Recommendations Summary accompanying this letter for your review and comment. The reportable conditions, along with your responses, will be included in our fiscal year 2004 statewide audit report. Please respond in writing to these reportable conditions and recommendations by November 17, 2004. Please include in your response the actions your department has taken or plans to take regarding these conditions, your agreement or disagreement with the conditions, the corrective actions planned, the anticipated completion dates, and the name of a contact person responsible for the corrective actions. The other conditions are issues of lesser significance that we want to communicate to agency management and require no response.

Management Letter No. 107-2004-11-01

Laurie Warner, Acting Director
Department of Administrative Services
Page 2

Should you have any questions, feel free to contact me at (503) 986-2349.

Sincerely,
OREGON AUDITS DIVISION

Kelly L. Olson, CPA
Audit Manager

KLO:bk

cc: Bill Fink, Administrator, Operations Division
Kate Coffey, Accounting Services Manager, Office of Business Administration
George Dunford, Statewide Internal Audits Manager

Audit Findings and Recommendations Summary
Department of Administrative Services
Statewide Central Service Cost Allocation Plan Audit
State Fiscal Year 2004

REPORTABLE CONDITIONS

Agencies Assessed for Central Service Charge Not Included in Cost Allocation Plan

The Department of Administrative Services (DAS) is assessing state agencies a total of \$779,678 for the 2003-05 biennium for capitol mall plaza debt service, according to the *State of Oregon 2003-2005 Price List of Goods and Services*. These revenues and the associated costs are not accounted for in the statewide central service cost allocation plan and DAS has not instructed state agencies to not charge these payments to federal programs. OMB Circular A-87 states that central service charges omitted from the plan will not be reimbursed.

We recommend that DAS communicate with agencies to ensure that federal programs were not charged for this assessment for the current biennium. In the future, DAS should consider including the capital mall plaza debt service assessment revenues and expenses in the statewide central service cost allocation plan; if not, the Price List should specifically state that agencies cannot use federal funding to pay the assessment.

\$1,000,000 Non-Operating Transfer Reported as an Operating Transfer

The Department of Administrative Services' (DAS) Telecommunications program transferred \$1,000,000 to the General Fund during fiscal year 2003. However, a review of the program's narrative and A-87 reconciliation of net assets for the fiscal year, included in the 2005 statewide central service cost allocation plan submitted to the Department of Health and Human Services (DHHS), revealed that the transfer was reported as an operating transfer to DAS's Information Resources Management Division. The transfer reduced the A-87 net assets balance rather than the state only net assets. OMB Circular A-87 states that general governmental expenses are unallowable; the transfer should have been reported as a non-operating transfer to the General Fund and the state only net assets for the program should have been reduced in the reconciliation of net assets.

We recommend that DAS contact DHHS to determine the required corrective action. Also, when preparing the annual reporting for DAS programs included in the cost allocation plan, DAS staff should review transfers out of the programs to ascertain that they have been properly reported in the narrative and in the A-87 reconciliation of net assets.

Unallowable Payments for Fines, Penalties, Damages, and Other Settlements

In testing a sample of payments transactions for fiscal year 2004 in the Department of Administrative Services' (DAS) Liability Insurance program, we found two transactions totaling \$607,034 in court awards, settlements, and legal costs for civil rights violations. According to

OMB Circular A-87, attachment B section 16 (issued May 2004), fines, penalties, damages, and other settlements resulting from violations (or alleged violations) of, or failure of the government to comply with laws and regulations are unallowable. Furthermore, per interpretation by the State of Oregon's cognizant agency, the associated legal costs are unallowable as are directly associated costs of the unallowable fines, penalties, damages or settlement costs. As part of its liability self-insurance program, DAS reported that \$2,342,089 in payments coded as civil rights violations (or alleged violations) in its subsidiary claims system were made during fiscal year 2003. DAS has included these payments as allowable costs in the Liability Insurance program's A-87 reconciliation of net assets.

We recommend that DAS determine the amounts paid for civil rights violations, including directly associated costs, for the fiscal years 2002, 2003 and 2004 as the Department of Health and Human Services (DHHS) has not closed the cost allocation plans for those years. DAS should then contact DHHS for further clarification as to whether these costs are allowable. If applicable, DAS should submit a restated A-87 reconciliation and any federal reimbursements as required for those years.

Costs Not Assigned Consistently to Agencies

OMB Circular A-87 requires that statewide central service cost allocation plans assign costs to state agencies on a consistent basis. For the 2003-05 biennium, the Department of Administrative Services' (DAS) charges for its three self-insurance programs (Liability, Workers' Compensation, and Property) were calculated at a single agency-level for all agencies except for two, the Department of Human Services (DHS) and the Oregon University System (OUS). DHS was based on 12 divisions and facilities and OUS was based on the seven schools and higher education management. By doing this, DHS and OUS benefit from being allowed to exclude more than one loss per insurance program as part of the calculation of their charge, while all other state agencies are only allowed one exclusion per insurance program. As a result, we estimate that DHS was undercharged \$1,324,965 (\$1,076,713 for Liability, \$192,814 for Workers' Compensation, and \$55,438 for Property) for the biennium. We did not estimate the amount OUS would have been undercharged. The other state agencies would have been overcharged, in total, by the amounts that DHS and OUS were undercharged for the three insurance programs.

Likewise, we found that DHS was treated as seven entities (the Director's Office and six divisions) for the 2003-05 biennial assessment for the E-Government program within DAS's Computer Services program. The statewide cost allocation plan and *State of Oregon 2003-2005 Price List of Goods and Services* state that the assessment is at the agency level. The result of not assessing DHS as a single agency was an over-assessment of \$253,915 for DHS for the biennium while 37 agencies (agencies with 50 or more FTE) were each under-assessed \$6,863 for the biennium.

We recommend that DAS revise the biennial allocation process to conform to the cost allocation plan—determine the amounts billed at the agency level in order for all agencies to be treated on a consistent basis.

Services Billed Not Based on Usage or Usage Not Supported

Our testing of revenues for the Department of Administrative Services' (DAS) Computer Services program revealed that there were services billed to state agencies that were not based on usage or for which usage was not adequately documented. Also, costs and other data used to distribute costs should adequately support the propriety of the amounts billed to users. Due to a lack of software capability, agencies are billed for data storage in the Burns Archive Center based on data transferred to the center rather than the amount of data stored. In addition, state agencies were charged a monthly amount for BRIO use from April 2003 through January 2004 equal to the amount, based on actual use, charged for March 2003. We also found that for other services billed, including tape charges and disk space, the Information Resources Management Division could not provide adequate documentation for the billing units underlying the amounts billed to state agencies. OMB Circular A-87 requires that billed services be related to the benefits received.

We recommend that DAS implement procedures to ensure that agencies using services provided by its Computer Services program are billed based on actual use of the service and that adequate documentation is retained to support the amounts billed to those state agencies.

OTHER CONDITIONS

Untimely Payment

We noted an untimely payment of \$42,958 during our testing of expenses for the Telecommunications program. The payment made in January 2004 was for invoices submitted by Qwest from January 1996 into December 1999 for work on a contract. After review by DAS's Office of Business Administration, the payment was made even though the vendor and IRMD could not provide adequate documentation for \$39,271.22 of the amount. IRMD staff stated that they believed the services were delivered and billed by the vendor during the contract period. Moreover, they stated that the complexity of the contract and agency staff turnover contributed to the payment delay.

We recommend that DAS strengthen its procedures for paying for services rendered under contract to ensure that past due amounts included on invoices are resolved in a timely manner.

Lack of Current or Proper Authorization

While testing revenues and expenses for the programs, we noted the following instances of transactions lacking either current or proper authorization:

- a. The annual authorization memo from the Facilities Division to OBA for utility payments charged to the State Building Rental program was not current. The memo authorizes OBA to pay listed vendors, up to specified maximum amounts, without additional authorization by the division. The latest memo that could be located by OBA was for the fiscal year ended June 30, 2001.
- b. An employee not included in the Facilities Division Director's listing of authorized signers authorized two purchases of supplies in the State Building Rental program.
- c. An employee approved a purchase in the Computer Services program charged to a PCA for which he lacked authority to approve payments.
- d. Testing revenues for the State Building Rental program revealed that four agencies did not have a rental agreement and another rental agreement was unsigned by DAS and the state agency. There were also two state agencies that had expired service contracts with no apparent written authorization covering services in the subsequent period.
- e. DAS's OBA pays the uniform rent for the DAS West building billed by the State Building Rental program and then charges the various DAS divisions occupying space in the building based on budgeted amounts. OBA does not have formal authorization from those divisions for the rent payment.

We recommend that DAS improve its controls over transaction authorization.