



Auditing for a Better Oregon

February 4, 2005

Bob Jester, Director
Oregon Youth Authority
530 Center St. NE, Suite 200
Salem, Oregon 97301-3765

Dear Mr. Jester:

The statewide single audit that included selected financial accounts at the Oregon Youth Authority for the year ended June 30, 2004, has been completed.

This statewide single audit work is not a comprehensive audit of your agency. Instead, this audit permits us to give an opinion on the statewide financial statements contained in the State of Oregon's Comprehensive Annual Financial Report and to report on internal control and the state's compliance with laws and regulations. Regular audits of the Oregon Youth Authority will continue on a periodic basis.

The following Oregon Youth Authority accounts and transactions were audited to determine their fair presentation in accordance with generally accepted accounting principles in relation to the statewide financial statements.

<u>SFMA Account</u>	<u>Description</u>	<u>Audit Amount</u>
<u>Government-Wide Fund</u>		
0852	Buildings and Building Improvements	\$64,266,001
<u>General Fund</u>		
3111	Regular Employees	\$35,142,728
3210	Public Employees Retirement Contribution	\$ 4,809,676
3263	Medical, Dental, Life Insurance	\$ 5,132,632

Based on our audit, we did not identify any reportable conditions related to the accounts audited. However, we did identify other conditions, which are issues of lesser significance that we wanted to communicate to agency management. These conditions are presented in the enclosed Audit Findings

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and Recommendations Summary accompanying this letter. These issues do not require a Corrective Action Plan. We will follow up on the department's progress in addressing these issues during the next fiscal year audit.

Should you have any questions, please contact David Moon or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Mary E. Wenger, CPA
Deputy State Auditor

MEW:bk

cc: Karen Olson, Assistant Director Business Services
David Clouse, Internal Auditor
Laurie Warner, Acting Director, Department of Administrative Services

Audit Findings and Recommendations Summary
Oregon Youth Authority – Statewide Audit
Fiscal Year 2004

OTHER CONDITIONS:

Blank Check Stock

Oregon State Treasury Policy (02.18.02 PO.105) requires agencies to maintain physical controls over blank check stock including limited access to all unissued check stock. Proper safeguarding of check stock decreases the risk of misappropriation of state assets as well as reducing the exposure of the department's employees to undue suspicion in the event of a misappropriation.

During our testing, we found that two supervisors who have authority to sign checks also had access to the safe where blank checks are stored. We communicated this risk to department management who corrected this issue by placing the check stock within a locking box within the safe, and distributing keys to only appropriate personnel.

We recommend the department continue this appropriate segregation of duties.

Paycheck/Pay Stub Processing

The Oregon Accounting Manual (45.45.00 PO. 101 & 102) precludes personnel that have been granted payroll update access from receiving or processing payroll checks/stubs prior to their regular distribution on the published release date (payday). Proper segregation of duties regarding payroll increases the strength of the control environment and decreases the risk to state assets.

During testing, we found that some payroll staff with Oregon State Payroll System (OSPA) update access received payroll checks and stubs prior to their regular distribution.

We recommend the department comply with the accounting policy by limiting access to paychecks and stubs to those employees without OSPA update access until after the regular distribution of paychecks.

Usernames/Passwords to State Systems

Department policy (I-E-3.2 (II)(A)(1)) and the Oregon Accounting Manual (10.60.00.PR.110) require access controls to include the use of individual passwords that are to remain confidential. Maintaining proper access controls aids in reducing the risk of errors, fraud, misuse, or unauthorized alteration.

Department management did not adequately supervise employee access to sensitive computer systems. During testing, we found that two payroll staff were sharing the same username and password to gain access and enter payroll information into the OSPA system. When brought to the attention of management, the shared account was deactivated and individual accounts were established and assigned to each employee.

We recommend the department monitor and evaluate employee access to computer systems to ensure that proper security controls are maintained for computer systems. We also recommend that the department routinely remind staff of computer system controls including password confidentiality.

Shift Differential Payment Calculation

The 2003-2005 SEIU Local 503, OPEU/State of Oregon Collective Bargaining Agreement states that: "All employees (Salary Range 22 or below) shall be paid a differential for each hour or major portion thereof (thirty minutes or more), worked between 6:00 p.m. and 6:00 a.m. and for each hour or major portion thereof worked on Saturday or Sunday." In other words, if an employee works less than 30 minutes the differential is not paid on that portion of time. On the other hand, if the employee works 30 minutes or more the differential is paid for an entire hour.

Payroll technicians were not aware of the proper method for calculating the differential pay. During testing, we found that 20 percent of the employees in our sample were not being paid according to the Collective Bargaining Agreement. Rather, they were paid based on actual hours worked, or a fraction thereof. For example, if an employee worked 15 minutes, he or she was paid the differential on those 15 minutes, whereas the bargaining agreement does not require this portion to be paid. On the other hand, if an employee had worked 45 minutes, they only received differential pay on the 45 minutes, whereas the bargaining agreement stipulates that a full hour should be paid. Therefore, in some instances this resulted in underpayment to the employee, while in other instances the result was an overpayment.

We recommend the department ensure compliance with the Collective Bargaining Agreement by ensuring payroll technicians are correctly calculating the differential payment.

Gross Pay Adjustment Report Review

The Oregon Accounting Manual (45 35 00.PO .101) requires an agency manager (not attached to the agency payroll unit) to review and approve the Gross Pay Adjustment report prior to the release of pay to employees. This preventative control provides agency management an opportunity to identify and resolve discrepancies in payroll prior to distribution.

During testing, we selected 11 reports and found that five did not contain evidence of review and six were not reviewed in a timely manner.

We recommend the department comply with accounting policy by reviewing the Gross Pay Adjustment reports in a timely manner; the review should be dated and include the initials of the reviewer.

Buildings and Improvements Records Retention

The Secretary of State, Archives Division policy (166-300-0020) (2) requires state agencies to retain records for state-owned facilities for the life of the structure, after which time they may be destroyed. This policy ensures records are accessible for administrative purposes, as well as preserved for historical or research purposes.

During testing, it was noted that these records were not always maintained for the life of the assets as required. Management stated that this was due, in part, to accidental destruction of archived material as well as the loss of some data when it was transferred from an older electronic format to the current format in use at the department.

We recommend the department follow the Archives Division retention policy by retaining supporting documentation for buildings and improvements for the life of the asset before destroying them.

Life Insurance Billing Calculation

Employees may enroll for optional life insurance for themselves and their spouse or domestic partner. Rates vary based on age group (for example, ages 20-24, 25-29, etc...) and amount of coverage desired. The premium rate is automatically deducted from the employee's paycheck each month. However, the payroll system does not update these rates automatically. Therefore, each January, payroll personnel must manually update the insurance withdrawal amounts in the payroll system for employees who have aged into the next age group. However, the payroll personnel responsible for performing this function were not aware of this requirement.

During testing, we noted that the yearly update of life insurance age groups was not performed. As a result, 5 percent of the employees in our sample did not pay appropriate insurance premium rates. Per discussion with a Public Employees Benefit Board representative, since the correct premium was not deducted, in the event of a loss of life, the employee would be at risk of not being insured.

We recommend the department make the necessary adjustments to employee withdrawal amounts to ensure each employee is charged the appropriate amount for their life insurance. In addition, the department should ensure that this process is performed annually, and that this requirement is included in the appropriate policies and procedures for payroll personnel.

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