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April 15, 2008

Susan Castillo, Superintendent of Public Instruction  
Oregon Department of Education  
255 Capitol Street NE, Suite 200  
Salem, Oregon 97310

Dear Ms. Castillo:

This letter summarizes some of the results of a broad-based risk assessment we recently completed at the Oregon School for the Deaf and Oregon School for the Blind. Through this process, we have identified and compiled a list of risks that we believe warrant management's attention. The scope of the work performed does not constitute an audit under Generally Accepted Government Auditing Standards. As such, this summary is intended to be informational in nature and not an all-inclusive or formal presentation of audit findings or recommendations. Along with each risk, we have included background information as well as potential mitigating actions the department should consider to address each risk.

We also identified risks related to campus security. Because of the sensitive nature of these risks, we have included them in a separate confidential management letter. That confidential letter was prepared in accordance with ORS 192.501 (22) and (23), which exempts such information from public disclosure.

We appreciate the time and effort your staff provided as we completed the risk assessment. Should you have any questions regarding this work, please feel free to contact me at (503) 986-6359.

Sincerely,  
OREGON AUDITS DIVISION

Sandra Hilton, CPA  
Audit Manager

SKH:jas  
cc: Ed Dennis, Deputy Superintendent  
Nancy Latini, Assistant Superintendent, Student Learning and Partnerships

## **Nutrition Services**

### **1. Weak inventory controls over food may allow for waste and theft of state resources.**

#### **Background**

Effective internal controls aid in the protection of assets, including food, a valuable commodity with a relatively short shelf life. Maintaining perpetual inventory that reflects the receipt, use, and disposal of food should allow the schools to know the quantity of food on hand and help ensure that food is available to meet planned meals and that spoilage is minimized. Periodic comparisons of physical to recorded inventory, by someone independent of the nutrition services department, may reveal unrecorded or incorrectly recorded inventory entries and aid in loss detection. Segregation of inventory recording, ordering, and receiving duties should help prevent any one employee from committing and concealing any theft of food.

During our review of nutrition services, we noted that food inventory at both schools was managed using only paper records. When a case of food was received or physical inventory examined, the number of cases on hand was updated; however, the use of individual items in a case of food was not recorded on the inventory document. Thus, to determine the amount of food on hand at any given time, food storage areas would need to be examined. Further, there are no periodic comparisons of physical to recorded inventory, at either school, by someone independent of the nutrition services departments. Additionally, we noted that at the School for the Blind, there was insufficient segregation of duties in the nutrition services department: one person could determine what to order, place the food order and receive the food. In contrast, at Oregon School for the Deaf, we noted that the duty of delivery receiving for chemicals and some food orders was appropriately segregated to an individual outside nutrition services.

Subsequent to our review of the nutrition services area, the schools began using a computerized meal-planning program that allows the user to update inventory to reflect the use of items within a case, allowing the school to know the amount of food on hand without examining physical supplies. At the School for the Blind, the program is used to track inventory and to plan meals. The nutrition services supervisor at the School for the Deaf plans to start tracking inventory with the program in the beginning of the 2008-2009 school year.

#### **Potential Mitigating Actions**

- Fully implement the computerized program for inventory tracking at both schools, including the establishment of procedures for recording receipt and use or disposal of food items.
- Segregate the duties of ordering, receiving and recording of the schools' food inventory records. Given the size of available staff and the frequency of food inventory turnover, if it is not feasible to fully segregate these duties, at a minimum, someone independent of the nutrition departments should periodically review purchases and compare them to menus and number of meals served for reasonableness.

- Require that a person independent of the food inventory, ordering, receiving, and recording functions perform periodic unannounced comparisons of physical inventory and recorded inventory records.

## **Maintenance**

### **2. Weak inventory controls in the areas of supplies, tools, and equipment may allow for waste and theft of state resources.**

#### **Background**

As described in the section above, internal controls, including maintaining a perpetual inventory system, adequate segregation of duties, and performance of unannounced independent inventory checks are important to protect assets from waste and theft. These controls should help safeguard the supplies, tools, and equipment used by maintenance staff in their daily duties.

During our review of the maintenance departments at the schools, we noted that a complete inventory of tools, equipment, and supplies was not maintained and independent inventory checks were not performed. Since the conclusion of our work, the department purchased inventory control software and a scanner used to record supplies, tools and equipment into the software program. In addition, the maintenance supervisor reported he hoped to reclassify a staff position so that it has responsibility for recording all transactions into the inventory program, and for ordering and receiving supplies, tools, and equipment. However, the duties as described are not sufficiently segregated to prevent the employee assigned these responsibilities from committing and concealing a theft of state property. Nor are they sufficient for management to detect such an act.

#### **Potential mitigating action:**

- Implement an inventory-tracking software program for supplies, tools, and equipment at both schools. Individuals with access to supplies, tools, and equipment should not have access to program functions that would allow them to add or delete items from the inventory.
- Segregate the ordering and receiving functions.
- Require that a person independent of the ordering, receiving, and inventory recording functions perform periodic unannounced comparisons of physical inventory to inventory records.

### **3. Buildings at the School for the Deaf may endanger students and staff in the event of an earthquake.**

#### **Background**

In July 2006, the Oregon Department of Geology and Mineral Industries (DOGAMI), assessed 11 buildings at the School for the Deaf and concluded that two buildings are at “very high” risk of collapse in the event of an earthquake and four buildings are “high” risk. During our review, we noted that department management and maintenance staff were aware of this risk. To date,

DOGAMI has not assessed buildings at the School for the Blind, which school management reported would need to be done if the school remains at the current location. All building modifications and upgrades at both schools are on hold until co-location decisions are made.

Potential mitigating action:

- In the near term, utilize existing buildings at the School for the Deaf in a way that does not endanger the safety of students and employees.
  - If the School for the Blind does not relocate, perform seismic assessment to determine the stability of buildings on campus.
  - Include seismic upgrades to unstable buildings in future plans for the schools.
- 4. In emergencies, teachers and staff at the School for the Deaf may not be able to communicate in a timely manner.**

Background

In the case of a campus emergency, it is important to communicate information quickly so that people can take appropriate action. For example, at the Colorado School for the Deaf and Blind, a system communicates emergency information from a remote location to each room on campus using visual and audio messages. In contrast, during our review of the School for the Deaf, we found that emergency information is communicated to deaf and hearing staff through email, text messages and, in some buildings, a Teletypewriter phone. Subsequent to our interviews, the school received one hundred strobe light units, which they plan to use to communicate emergency situations to deaf and hearing students and staff.

According to school management, the phone intercom system is an adequate tool to communicate information at the School for the Blind since staff and teachers can see and hear.

Potential mitigating actions:

- Continue with the implementation of the lights and develop a system in which the school communicates the existence of a campus emergency. Perform regular drills using the system.
- 5. The schools may not utilize the most efficient and effective method for capturing and sharing student information with appropriate staff.**

Background

At the department's request, the Department of Justice (DOJ) initiated an investigation at the School for the Deaf to determine whether students at the school were adequately supervised. The DOJ investigator expressed concern that information about students, which is stored primarily in paper form, may be difficult to locate and share with staff that need to know about those students. Thus, students' behavioral patterns may not be identified and addressed appropriately.

Potential mitigating actions:

- Consider using electronic documents stored on a restricted access network to facilitate sharing of student information and improve document storage.
- 6. The school's records retention practices may not be consistent with the Oregon Secretary of State, Archives Division's state archiving requirements.**

Background

The Oregon Secretary of State, Archives Division, maintains general records retention schedules that provide state and local agencies with the lawful authority to destroy or otherwise dispose of commonly occurring public records. Based on its investigation, DOJ noted that records retention practices at the School for the Deaf may not be consistent with these archiving requirements. School for the Deaf management reported that staff and teachers recently received training about record retention policies.

Management at the School for the Blind was not sure that the school's retention practices are consistent with state archiving requirements.

Potential mitigating actions:

- Review records retention policy and practice for both schools to ensure consistency with state archiving requirements.
- Develop a process to ensure that records are retained and purged according to schedule.

**ODE Management**

- 7. Lack of background checks may allow non-teaching and non-nursing staff convicted of certain crimes to continue working at the schools.**

Background

Background checks are performed on teaching and nursing staff every time their licenses are renewed, which is at least once every five years. However, during our review, we noted that background checks of non-teaching and non-nursing staff, positions that include maintenance and nutrition services staff, are performed only at hire and promotion. Given that the backgrounds of non-teaching and non-nursing staff are not checked regularly, there is a risk that an employee may continue to work at one of the schools even though convicted of a crime that prohibits school employment.

Potential mitigating actions:

- Consult with DOJ about whether the backgrounds of non-teaching and non-nursing staff should be checked periodically, as are teaching and nursing staff. If allowed, perform such checks.

**8. Department oversight of the special schools and its ability to meet the needs of students statewide may suffer if the duties of the Director of the Special Schools and Programs are not performed.**

Background

According to department management, for decades, there was little oversight of the special schools and some policies at the schools were not followed. Following public concerns raised about student safety, the department took a more active role in managing the schools. For instance, the Deputy Superintendent and the Assistant Superintendent of Student Learning & Partnerships began to spend more time at the schools. The Assistant Superintendent of Student Learning & Partnerships told us she communicates with the schools, most often with the Directors, weekly. In addition, a department staff member took the position of Director of Special Schools and Programs.

Among other things, the Director of Special Schools and Programs acted as a liaison between the schools' leadership teams and the department. He also conducted a needs assessment survey of School for the Blind stakeholders and was planning to assess district and parent needs of the School for the Deaf. Finally, he worked with a team of regional program representatives charged with developing criteria for standardizing placement of students at the schools. However, the individual who filled this position left the department in January of 2008. While department managers told us they planned to fill the position with a contractor who will work less than full time, they provided no timeline for filling the position.

Potential mitigating action:

- Ensure that the duties of the former Director of Special Schools and Programs are fulfilled. These include acting as a liaison between the department and the special schools, working with regional representatives to develop standardized placement criteria, and assessing districts' needs of the schools.

**Observations about the Co-location Planning Process**

As part of our risk assessment, we planned to determine whether the department was using project management best practices for its project to co-locate the schools for the deaf and blind. To do so, we interviewed a Legislative Fiscal Office analyst and department and school management, and reviewed the department's contract with Innovation Partnerships, an organization contracted to evaluate the co-location. However, we determined that the co-location planning process is in early stages and concluded that we could not perform an in-depth risk assessment of the issue at this time. Since the co-location is a complex and sensitive issue involving many stakeholders, we believe the department should consider consulting with outside experts on issues such as the sale of the OSB campus and structure of a new campus so that it best serves the needs of deaf and blind students. We also believe the department should use project planning best practices and communicate regularly with school management and staff about its plans and progress.

### **Follow-up of Prior Audit Recommendations**

In 2002, the Oregon Audits Division reviewed the administrative and custodial trust funds administered by the Department of Education. The purpose of the 2002 audit was to review and evaluate controls over the processing of trust fund transactions at the School for the Deaf and the School for the Blind. The resulting management letter (No. 581-2002-11-01) had 39 recommendations. Subsequently, department managers communicated that they had changed policies and practices to address the recommendations. As part of this risk assessment, we followed up on the recommendations from the 2002 audit and found that some findings had not been addressed. These include the following:

1. The schools do not provide SFMA trust fund account balances to parents and students. Instead, the individual responsible for disbursing cash to students also provides account balance information. This increases the risk that trust funds could be misappropriated by the person distributing cash without detection. Account balances from SFMA would provide parents and students with an independent source of information, increasing segregation of duties as the recommendation intended.
2. Schools' petty cash disbursement forms have not been changed to include alphabetically and numerically written dollar amounts.
3. Reconciliation of student work hour records to pay disbursements is not performed.
4. The department has not obtained legislative approval for establishing petty cash funds, nor are such funds included in the department's legislatively approved budget.
5. The department has not expanded, prior to fundraising activities, accounting procedures to include preliminary budgeting for class needs and identification of uses for excess funds. Department personnel reported that the school intends to create a closing account plan for this year's senior class and set up a file with final determination directives for unspent and unobligated funds for future classes.
6. Unannounced counts of change funds are not performed, though department personnel reported their intention to perform the counts.

#### **Potential mitigation action:**

- Implement the outstanding recommendations from the 2002 trust fund audit.