

Office of the Secretary of State

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November 5, 2008

Marvin Brown, State Forester
Oregon Department of Forestry
2600 State Street
Salem, OR 97310

Dear Mr. Brown:

We have completed our audit of Common School Fund forest land management costs. (See report no. 2008-32 entitled Departments of Forestry and State Lands: Review of Common School Fund Forest Land Management Costs). The purpose of the audit was to determine whether costs the Department of Forestry charged for management of Common School Fund forest lands were reasonable and in compliance with the Interagency Agreement between the Department of State Lands, Oregon Department of Forestry, and State Land Board. During the course of our audit work, we identified the following issues that deserve your attention. We did not include these issues in our audit report because they were not directly related to our audit objective or were of lesser significance.

Inadequate Procurement Procedures

We found the department did not always comply with state procurement laws and best practices. Specifically, the department did not always competitively solicit contracts, nor did it maintain solicitation documentation as required by state law. For example, the department did not competitively solicit a contract with a watershed association for a fish presence survey.

Further, contrary to best practices, the department paid approximately \$31,500 (\$3,300 of which was charged to State Lands) for various office related services, but could not provide us with an agreement or contract. Also, for \$57,750 in payments (\$17,600 of which was charged to State Lands), the department either lacked supporting documentation or paid for services that were outside of the written contract's scope of work.

We noted that area and district office staff have procurement responsibilities for goods and services under \$75,000, yet have limited training or expertise in these areas. We believe this lack of training and expertise contributed to the problems we identified.

We recommend the department provide procurement training to area and district staff who have contracting responsibilities and implement central monitoring procedures to ensure all procurements comply with state procurement laws and adhere to best practices.

Inaccurate Communications Pool Rates

We identified an error in the communications pool operational assessment. Specifically, department staff developed the communications pool operational assessment for fiscal year 2006 using inaccurate budget information. This resulted in an overall undercharge to departmental units and overcharges to the Oregon Parks and Recreation Department and the Oregon Department of Fish and Wildlife that totaled about \$1,000.

We recommend the department improve the communication pool operational assessment process to ensure rate accuracy.

Insufficient Transaction Support

Each work unit designs allocations for expenses shared across multiple program areas. The department's common practice is to design RTIs or Recurring Transaction Indices in SFMA (Statewide Financial Management Application) to allocate costs across multiple funds. We reviewed some of the RTIs eight area and district offices commonly use. In order to verify the RTI allocations, we requested supporting documentation. At six of the eight offices, we found the supporting documentation staff provided did not agree to the RTI used. *The Oregon Accounting Manual (10.15.00.PO)* specifies that transaction documentation must be complete and accurate, and allow a transaction to be traced from source documentation.

We recommend the department develop policies and procedures to ensure it meets transaction documentation requirements, which should include retaining support for RTI allocations.

Allocation of Payroll Cost

According to best practices, indirect costs should be allocated based on current and accurate data. In addition, the department's *Administrative Payroll Manual* requires that employees accurately record time worked and supervisors review timesheets for accuracy, completeness, and correct coding.

We identified areas in which the department could improve its process for allocating payroll costs. For instance, we identified the following issues with the timesheets we reviewed:

- payroll staff incorrectly entered 33 percent of employee leave and professional development hours into OSPA as direct charges to various activities rather than using the established labor cost code allocation rate;
- forty-five percent of labor cost codes the system utilizes to allocate cost were inaccurate; and

- support staff adjusted 45 percent of the timesheets we reviewed before entering them into OSPA without documenting the reason for the adjustment, obtaining supervisor approval, or notifying the affected employees of the adjustments.

We recommend the department develop and implement procedures to strengthen its payroll allocation processes. Specific procedures should include the following:

- requirements to use the system's labor cost codes to generate allocation percentages when appropriate;
- updates to the system's labor cost code percentages and periodic reviews to ensure accuracy; and
- documentation of employee notification, reason for change, and supervisory approval for any modifications made to timesheet coding or hours.

Questionable Service Award Program

It appears the department's Service Awards Program (Directive 0-3-4-710) does not comply with the Department of Administrative Services (DAS) statewide employee recognition policy. That policy (50.040.01) generally allows one-time awards with a value not to exceed \$50 in a calendar year. The purpose of the department's Service Awards Program is "to recognize an employee's years of service." Eligible employees select an award from a list of available items every five years, starting with 10 years of service. The department purchases these gifts, each valued at approximately \$75, using state funds.

The award amount appears to conflict with DAS's policy. Department management told us the department is examining possible program revisions.

We recommend the department work with the Department of Administrative Services to ensure its employee recognition program is in compliance with state rules.

Unsecured Records at Area Office

During fieldwork, we observed an office manager retrieving area office files out of a personal vehicle. The files included sensitive personnel and payroll documentation. The office manager stated that she took the files home in an effort to finish a year-end review prior to archiving records.

This practice creates a risk that department records, including those with sensitive or confidential information, could be lost or stolen. Department management confirmed it did not have formal policies or procedures to address records security.

We recommend the department develop policies and procedures to ensure all department records are appropriately safeguarded.

Marvin Brown, State Forester
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Should you have any questions, please contact Nicole Miller or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

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