



Kip Memmott
Division Director

August 8, 2024

Erin McMahon, Director
Oregon Department of Emergency Management
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Director McMahon:

We have completed a focused real-time risk assessment of the Oregon Department of Emergency Management (ODEM). The division included this project in our 2024-25 Audit Plan at your request.¹ We appreciate your proactive engagement with our team to help identify risk and improvement opportunities within ODEM. You specifically requested an independent evaluation of the agency's fiscal practices to inform strategic planning, as the agency has experienced problems with the state's payroll and timekeeping system, Workday. We designed the work to assist ODEM successfully establish internal controls and practices that will ensure effective coordination of private sector and government efforts to prevent, prepare for, respond to, and recover from emergencies to the benefit of all Oregonians.²

We found that despite existing as a state agency for two years, ODEM is still undergoing significant transition and is missing critical resources and tools. For example, ODEM currently has vacancies in about 21% of its positions and lacks key, foundational operating controls and processes necessary to achieve its mission. Additionally, ODEM has not made sufficient effort to participate in a project intended to address key shortcomings with Oregon's Workday payroll software and is using an ineffective approach for developing and adopting policies and procedures.

Due to the speed and design of ODEM's transition out of the Oregon Military Department, ODEM did not have essential positions needed to fully stand-up and operate a new state agency. With significant disasters affecting Oregon in recent years, agency leadership focused on maintaining critical emergency response and recovery functions. However, it is urgent that ODEM develop its ability to simultaneously fulfill its responsibilities for emergency management and carry out fundamental agency operations if it hopes to fully meet its mission, vision, and values.

Aligned with our strategy for real-time auditing, we are issuing this management letter to provide ODEM's leadership team with timely information and recommendations for addressing identified substantive agency risks.

¹ [Oregon Secretary of State 2024-25 Audit Plan](#).

² Internal Control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved. United States Government Accountability Office. (2014). [Standards for Internal Control in the Federal Government](#).

Background

House Bill 2927 (2021) removed the Office of Emergency Management from the Oregon Military Department and established it as the standalone Oregon Department of Emergency Management in the effort to help redirect the agency's focus back onto statewide emergency management priorities instead of National Guard priorities. ODEM's role is to strengthen emergency coordination and response among local, tribal, state and federal jurisdictions and communities, helping to save lives, protect Oregon's critical infrastructure, and prepare communities across the state before catastrophic events occur.³ House Bill 2927 also transferred the Oregon Emergency Response System call staff from the Department of State Police to ODEM in the 2023 biennium, and transferred the Oregon Homeland Security Council from ODEM to the Governor's Office. ODEM also has responsibilities to fulfill in response to the Governor's executive orders related to Oregon's housing and homelessness crisis.

The agency's 2023-25 Legislatively Adopted Budget was about \$1.26 billion; \$1.05 billion of this was federal funds. This major source of funding comes from state homeland security, Federal Emergency Management Agency disaster recovery, and Non-Disaster Emergency Management Performance Grants.⁴ These funding sources are used for general ODEM operations, development and administration of the emergency response infrastructure, training, and grants passed through to local governments for emergency management programs. Some of the funds require a 50% state or local match. The Oregon Legislature allocated to ODEM 132.4 full time equivalent positions to fulfill the responsibilities of the agency, which include:

- **Emergency Preparedness and Response:** Executes planning, training, and exercise programs to raise awareness and preparedness for all hazard incidents. This includes the Homeland Security grant programs, Emergency Operations Plans, the Geological Hazard Program, the National Incident Management System, and the State Emergency Coordination Center.
- **9-1-1 Emergency Program:** Includes operation and management of the network that delivers 9-1-1 emergency calls to Oregon's 43 Public Safety Answering Points throughout the state.
- **Mitigation and Recovery Program:** Coordinates the development, planning, and adoption of local community hazard mitigation plans, flood mitigation and fire assistance grant programs, pre-disaster grant program, and disaster recovery payments.
- **Debt Service:** General Fund debt service for general obligation bonds issued for the State Preparedness and Incident Response Equipment grant program.

³ [House Bill 2927 \(2021\)](#).

⁴ ODEM's federal funding has increased in recent years due to many federally declared disasters, including the COVID-19 pandemic, major wildfires, floods, and landslides.

ODEM lacks the ability to timely and accurately capture and report employee time

A state agency's ability to timely and accurately capture information like the time employees spend working on projects — including those billable to federal grants — or how much budget is available for various purposes is foundational to its ability to operate effectively and efficiently, and to properly and transparently account for public funds.

In December 2022, the Oregon Department of Administrative Services (DAS) implemented Workday to modernize the state's human resources (HR), payroll, and time tracking functions and increase productivity and reduce errors through the reduction of manual processes. Workday is a third-party software vendor that offers a variety of enterprise management products relevant to payroll, but also to training and workforce development. Workday provides the software infrastructure while DAS is responsible for the development and implementation of the configuration specific to the state's unique payroll requirements.

In our early meetings with ODEM's leadership, it was clear they were dissatisfied with Workday as a software solution for their time tracking needs; as a result, ODEM management developed a supplemental process to ensure compliance with cost allocation requirements. Management expressed hope that an audit would show things they could be doing better; specifically, if there was another timekeeping system they could be using.

ODEM's current implementation of Workday is such that all staff hours worked are billed to the General Fund. When entering time into Workday, staff do not divide time to different Project Charge Accounts (PCA) based upon what projects or grants they were working on, despite it being known that a significant portion of their time is ultimately billed to various federal grants or other cost centers. Instead, ODEM has staff fill out a custom timesheet which finance staff use to manually reallocate costs to the proper funding sources. Filling out this custom timesheet requires staff to be aware of the PCA codes associated with the various projects or grants they worked on to appropriately record their time. Staff must then manually enter hours under those PCA codes.

Additionally, according to ODEM staff, these timesheets are often turned in late, with frequent errors, or both. A staff member said they have seen timesheets not approved until a week or a month past the due date. The interim Chief Financial Officer (CFO) said that although timesheets are completed, they are often incorrect, and the effort of section managers to catch and correct these errors is not sufficient. Instead, errors are found by the finance section, who must send timesheets back to staff and managers for correction and another round of approvals. The previous CFO shared examples where timesheets were not sent in until two or three weeks after the end of the month. Upon learning of this issue, the interim CFO developed a payroll and timesheets procedure setting expectations for management to review, correct, and submit accurate timesheets within prescribed timeframes to ensure ODEM bills federal grants correctly, however, ODEM had not finalized or distributed this procedure at the time of this review.

Exacerbating this issue, the agency has no timekeeping policies or procedures instructing staff how to charge time to federal grants. Some staff have requested a time entry guide; according to the ODEM leadership, this is on their list of policies they need to implement soon. The agency also does not have guidance for staff to reference when they charge their time to multiple grants, which can change month to

month. An employee shared frustration with auditors over instances when they were unsure of what time codes to enter for new grants, and in needing to repeatedly ask supervisors who provide conflicting answers. Managers may also be unsure of which codes to use, and requests for the correct codes regularly escalate to the CFO who is already inundated by other work. ODEM could generate this type of grant code guidance monthly or quarterly and provide it to staff.

ODEM leadership raised concerns with the agency's labor-intensive and error-prone manual spreadsheet process for time entry outside of Workday, calling for a more efficient software solution. However, no matter what system ODEM uses, without formal guidance for staff, the agency cannot adequately support staff's understanding of how to appropriately submit their time or hold them accountable for doing so. ODEM should finalize its time entry guide and provide necessary reference materials along with clear expectations, empowering staff to successfully record and submit their time worked. Once established, leadership should hold employees accountable to these time entry expectations. Capturing timely and accurate information regarding where and how employees are spending their time is foundational to ODEM being able to maximize the use of available federal dollars.

ODEM should engage with DAS to pursue implementing existing Workday payroll and time tracking functionality

Workday as a statewide software solution is fraught with issues and challenges plaguing its implementation across the state. This is especially true for some of its more complex responsibilities, such as replacing the state's legacy payroll system. Nonetheless, despite the original issues and the challenges that remain, Workday does contain some existing functionality that can be configured to suit many of the needs of a state agency.

According to DAS, the previous ODEM CFO requested all staff have their default cost center set to the General Fund due to their frustration with Workday; this largely took ODEM's timekeeping out of Workday. Instead, ODEM went back to paper or digital timesheets. At the time of this review, there is no one in ODEM who is set up to have their payroll costs be split allocated in Workday. This means when staff enter time into Workday, everything gets initially billed to the General Fund. Nothing gets correctly reallocated to federal grants or other PCAs until custom timesheets get processed later.

In researching other agencies which have similar time accounting needs as ODEM, we learned ways one has leveraged existing Workday functionality to meet their needs. The Oregon Department of the State Fire Marshal (OSFM), while acknowledging Workday is not perfect, was able to configure it in such a way that allows the agency to utilize it for time tracking.

The OSFM achieved this by working with the DAS Chief Human Resources Office to understand how to use and configure certain functionality in Workday, along with hiring a person with experience aligning state HR practices and Workday. According to the OSFM HR Director, staff can split out their time across different PCA cost centers in Workday by utilizing an existing ability in the software that allows agencies to use custom PCAs. The result is lists of PCA codes integrated into Workday using "worktags" that are selectable by employees when entering their time. OSFM worked with DAS to configure these options within Workday, and then educated employees on how to use these features to enter their time correctly. This included creating an instructional sheet to guide employees on how to use the system.

We spoke with DAS staff who specialize in Workday Payroll and Time Tracking, and they believe there may be a better way for ODEM to set up cost allocations in Workday, saying it could be a configuration issue. DAS staff expressed willingness to collaborate with ODEM to try and find a solution. We suggest ODEM continue to collaborate with DAS and communicate to them ODEM's challenges and problems relating to Workday and its Payroll and Time Tracking functionality. Once DAS identifies who needs to be brought in to help, ODEM should utilize that help. Specifically, ODEM should seek DAS assistance with exploring configuration options, to see what is needed to set up their Workday application such that their staff are able to split their time across cost centers and eliminate the need for custom timesheets.

ODEM should increase its engagement with DAS on the Workday OPE reallocation resolution project

While researching ODEM's current utilization of Workday and learning of the agency's challenges when using it, we became aware of issues around what's called Other Payroll Expenses (OPE) and Workday's inability to reallocate them. OPE are the other expenses associated with payroll outside of the actual employee salary — flexible benefits, PERS retirement, workers compensation and mass transit tax are some of these expenses. According to DAS, Workday does a good job of costing things out initially, including OPE; however, it is unable to reallocate OPE if an agency needs to retroactively make changes to the cost center. As a result, anytime an agency needs to do a cost center override, they must do it manually by adjusting costs in the state's accounting system. This is work-intensive and takes employee time away from other important tasks.

DAS has been actively working on a solution, called the OPE Reallocation Resolution project, by developing a system that will automate this reallocation process for agencies outside of Workday. According to DAS, this solution is needed by every agency which must override a cost center. However, DAS identified approximately 80 agencies who do cost center overrides on their timesheets, and of those, about 40 are actively overriding costs on a month-to-month basis, including ODEM.

DAS staff working on the project told auditors the project is in Phase 2, which involves the testing of the automated OPE Reallocation Resolution process. This phase is complex, with many tasks and responsibilities shared across both the DAS Workday Team and individual agencies. In part, each agency is responsible for creating their own specific test scenarios, inputting them into the test environment in addition to standard ones, and then validating if the tests passed or failed. Ultimately, each agency is required to sign off on whether the testing met expectations.

According to DAS staff, the first test run has already been completed, but more are planned. At the time of our discussion, DAS was under the impression ODEM had participated in the first round of testing but was unsure if ODEM was able to reconcile the results or not. We found ODEM had not communicated to DAS that the former CFO was no longer working for the agency. Despite this, the former CFO was still listed as the authorizing official for transactions related to this testing. We relayed this information to ODEM, who were able to connect with the DAS staff and gain some clarity on what immediate testing tasks ODEM needed to work on completing, and who would participate.

ODEM has correctly identified a need to improve its process and approach to time tracking, particularly as it relates to correctly allocating costs to the proper cost centers. However, ODEM had been resistant to fully

exploring the abilities of Workday in combination with the DAS OPE Reallocation Resolution project. Considering this project is intended to develop the solution to one of ODEM's primary payroll challenges, and the significance of agency involvement being relied upon during testing of this automated process, it is imperative for ODEM to collaborate and participate in the remainder of this process.

We suggest ODEM fully explore and exhaust the existing Workday and OPE Reallocation Resolution project as solutions for its time accounting needs, prior to considering alternatives.

ODEM lacks key, foundational internal controls due to its difficult transition to a state agency, and an ineffective internal process

Despite the important life and death responsibilities of the agency, the state did not properly prepare for standing up ODEM as a new state agency with an adequate system of internal control. Internal and external stakeholders indicated to us that ODEM faced multiple major impediments in its conversion to a standalone agency. For example, removed from the Oregon Military Department mid-biennium, ODEM had just one year to complete the transition, unlike the new OSFM, which moved out of the Department of State Police after two years of planning and preparation.

ODEM's transition did not include strong internal infrastructure needed to establish a control environment. The department indicated to us that ODEM, lacking assets like a Business Services Division, Human Resources, and personnel dedicated to policy development, as well as the lack of a transition plan and the occurrence of several unprecedented disasters, all meant the organization was "set up for failure." This differs from OSFM, which hired and relied on human resources staff and a policy analyst to develop policies during OSFM's transition. ODEM also lacked key managerial positions important for guiding the content of some policies, including a Chief Information Officer, a permanent Chief Financial Officer, and a Business Services Division Director. To ODEM's credit, it worked to fill these positions over several months, hiring for all three between February and May 2024.

You also led a 90-day assessment in September 2023 to document areas of improvement and help inform future strategic planning.⁵ This comprehensive and useful report drew from stakeholder input and an agencywide survey to discuss 33 findings in areas like personnel management, leadership, and business plans and procedures. Implementing key foundational controls identified in this letter may help resolve some of the findings identified in the assessment.

With ODEM having completed its first strategic plan in June of 2024, it is urgent the agency develop the controls needed to carry out fundamental agency operations and comply with Federal and state regulations

⁵ [ODEM's 90-day assessment \(2023\)](#).

which require ODEM to maintain effective internal controls over awards. ODEM has not yet developed the vital controls those regulations describe.⁶

These major obstacles stemming from ODEM's transition to a standalone agency are not the only reasons ODEM lacks strong internal controls.

ODEM still has not developed critical policies and procedures needed to guide staff creating significant risks to the state

In the two years since ODEM's establishment, it has not adopted urgently needed policies and procedures. Prior state and federal audits have consistently called for stronger internal controls, including policies and procedures, and according to a recent ODEM internal audit, this lack of policies and procedures contributed to all its findings. For example, the audit identified overpayment of awards to subrecipients, insufficient documentation to support expenses for reimbursement, and delinquent reporting required by the federal government.⁷

Though these audits were issued both prior to and after ODEM's transition to a standalone agency, the core of these findings were reiterated in your 90-day assessment published in January 2024. The assessment identified most of ODEM's organizational policies preceded its shift to a standalone state agency, thus the existing systems and policies provide incorrect guidance for operations. However, as of March 2024, ODEM had only three approved policies and no such procedures.⁸ This lack of formal guidance to staff is especially concerning given the agency's role as a grantor and guide to local agencies in emergency management, and the high risk of misallocation and potential loss of federal funds.

While ODEM staff rely on a mix of federal and state guidance in carrying out their work, much of it has not been formally recognized internally and significant gaps remain. In administering federal grants, staff use a host of federal requirements outlined in federal regulations and section operating plans. Sections also have varying amounts of standard operating guidelines (SOGs) detailing specific work processes, with one manager estimating between 45-70 for functions within just their section. However, these SOGs and other procedures used by staff have not been formally approved.

Without approved policies and procedures, staff may not understand expectations or be held accountable for them. Intensifying the problem, staff told auditors the agency has, in various locations, thousands of electronic files, including outdated and informal policies and guidance; no one knows which are current or should be followed. Additionally, an onerous policy and procedure development process has impeded the development of controls and threatens to continue doing so.

⁶ Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, [2 C.F.R. § 200.303 \(2014\)](#). United States Government Accountability Office. (2014). [Standards for Internal Control in the Federal Government](#). The Committee of Sponsoring Organizations of the Treadway Commission. (2013). [Internal Control — Integrated Framework](#). Oregon Department of Administrative Services. (2001). [Management's Responsibilities](#).

⁷ Broughton, L. (2023). Grants Accounting Audit Financial Management and Reporting. Oregon Department of Emergency Management.

⁸ Policies and procedures differ in that policies set ongoing expectations for employees, whereas procedures provide step-by-step instructions for accomplishing tasks, and often need frequent updates.

ODEM should streamline its process for developing official policies and procedures by delegating their development to section managers

To address ODEM's lack of policies and procedures, you supported efforts to stand up a committee process for developing both using current staff, which began in January 2024. While ODEM's intentions behind its policy committee and associated process are commendable, the committee's complicated and burdensome approach has stalled and, in many cases, halted progress.

The process is intended to support the quality of ODEM's formal guidance using a multidisciplinary committee to review drafts. However, in practice, leadership and key staff involved say the committee's initial meetings were unproductive. Compounding this is a 15-step process so complex that even committee members and other staff do not fully understand how it works.

The current committee process delays or blocks the adoption of policies and procedures by:

- Involving too many discussions and touchpoints with various stakeholders,
- Requiring director review and approval,
- Expecting the committee to field requests from anyone in the organization,
- Applying the same onerous process, including review by all ODEM staff, to procedures, which are often technical and job-specific,
- Adjudicating individual comments from all ODEM staff, an unnecessarily time-consuming approach to incorporating feedback,
- Mandating all procedures tie to an approved policy, which has created a bottleneck considering the agency has so few formalized policies,
- Remaining opaque in crucial areas; for example, ODEM has no committee charter defining the committee's role and responsibilities and it is unclear how the committee identifies and prioritizes needed policies and moves them forward even though they have informally assumed that responsibility.

In relying on this process, the agency has been unsuccessful in formalizing policies and procedures that could have been drafted or already exist, such as the many SOGs staff already use. Outside of this committee, some managers and employees have taken the initiative to draft other important policies and procedures but have either failed to obtain approval or not sought formal adoption by the agency.

In the short term, leadership should expedite the implementation of policies and procedures by exempting some from this lengthy committee process. ODEM should implement policies immediately by adopting common DAS policies applicable to all state employees such as the discrimination and harassment free workplace and maintaining a professional workplace policies.⁹ By adopting common DAS policies and looking to other state agencies with similar policy needs, ODEM could address some of its needs for critical

⁹ Discrimination and Harassment Free Workplace, [DAS Policy 50.010.01](#) (2022); Maintaining a Professional Workplace, [DAS Policy 50.010.03](#) (2019).

policies without having to develop them from scratch. Similarly, ODEM should immediately formally approve policies or procedures already drafted and vetted by internal subject matter experts, such as the payroll and timesheets procedure created by the interim CFO.

Improving the process in the long term could involve researching and considering approaches used by other state agencies, including those without a committee. Leadership could consider abolishing the committee in favor of more streamlined approaches that serve the same intent. For example, to limit the number of staff involved in guiding centralized policy making, the agency's new analyst responsible for policy development could work with HR staff and management to draft policies and facilitate review.

Instead of relying on a committee and the agency director, ODEM should delegate to section managers the duty of generating, approving, and updating section-specific procedures and policies. Managers could spearhead development efforts and assume responsibility for quality, formal adoption, and periodic updates as they and their staff are the subject matter experts in the areas of work. To help ensure necessary reviews occur without a policy review committee, managers or their section leads could:

- Coordinate with the agency's new policy analyst to identify necessary reviewers, such as the union and HR.
- Work with other managers to incorporate any needed input or collaboration from other sections.
- Facilitate obtaining external stakeholder feedback.

To encourage efforts by multiple sections and help leadership hold managers accountable for adequate policy and procedure development, all finalized versions should be stored in a shared location where anyone can see them.

For this approach to succeed, leadership will need to support managers with clear direction and resources. The agency's new strategic plan should help set priorities, but managers will still need regular guidance and oversight to ensure policies and procedures are developed and regularly updated. In addition, ODEM staff told auditors staff are working at capacity, which requires some managers to take on tasks that would otherwise be performed by staff. Identifying and deploying staff to lead worker roles, which some sections have done, could help free up managers to work on the development of policies and procedures. The 90-day assessment stated that "each manager should have at least one team leader who can support them in managing tasks." According to the DAS Chief Human Resources Office, a directive from you, to implement lead workers could accomplish this across the agency. Finally, filling the vacancies in the agency should also help free up staff and managers to address these critical issues.

We appreciate your staff's assistance and cooperation during this review. Should you have any questions, please contact Olivia.reched@sos.oregon.gov or Kyle.a.rossi@sos.oregon.gov.

Sincerely,

Office of the Secretary of State, Audits Division



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August 7, 2024

Kip Memmott, Director
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Dear Mr. Memmott,

The Oregon Department of Emergency Management (OEM) appreciates the time that was put into the review of the agency's fiscal practices around payroll and timekeeping. This letter provides a written response to the Audits Division's management letter.

The implementation of Workday payroll was a monumental effort that required dedication, collaboration and hard work from our entire team. Our staff demonstrated tremendous commitment and professionalism throughout the process. Their outstanding performance enabled OEM to successfully report time while continuing to explore Workday's ability to meet agency needs. We greatly appreciate the opportunity to receive this valuable feedback which will support these ongoing efforts for improvement.

OEM appreciates your office's work and your staff's dedication throughout this review. We look forward to the opportunity to work with your team again in the future.

If you have questions or need any additional information, please contact me.

Erin McMahan, Director

Oregon Department of Emergency Management