

HOUSE COMMITTEE ON AUDITS

January 13, 2005 Hearing Room D

8:30 A.M. Tapes 1 - 2

(Corrected 2-14-05)

MEMBERS PRESENT: **Rep. Jerry Krummel, Chair**

Rep. Tom Butler, Vice-Chair

Rep. Diane Rosenbaum Vice-Chair

Rep. Alan Brown

Rep. Jackie Dingfelder

STAFF PRESENT: **Jim Keller, Committee Administrator**

Kellie Whiting, Committee Assistant

MEASURES / ISSUES HEARD:

Introduction of Members- Organizational Meeting

Adoption of Committee Rules – Organizational Meeting

Secretary of State Audits Division- Informational Meeting

These minutes are in compliance with Senate and House Rules. Only text enclosed in quotation marks reports a speaker's exact words. For complete contents, please refer to the tapes.

TAPE/# Speaker Comments

TAPE 1, A

010 Chair Krummel Calls the meeting to order at 8:45 a.m. and opens the organizational meeting on the introduction of committee members.

Introduction of Members - ORGANIZATIONAL MEETING

020 Rep. Rosenbaum House District 42. Introduces herself and her background.

043 Rep. Dingfelder House District 45. Introduces herself.

064 Rep. Brown House District 10. Introduces himself.

071 Rep. Butler House District 60. Introduces himself and his background in public service as a county commissioner and a public accountant.

166 Chair Krummel House District 26. Introduces himself and his background.

209 Chair Krummel States his strategy on state government. States that he does not want acronyms used during the meetings.

253 Chair Krummel Introduces the proposed Committee Rules (**EXHIBIT A**).

Adoption of Committee Rules - ORGANIZATIONAL MEETING

253 Rep. Krummel **MOTION: Moves to ADOPT the proposed Committee Rules.**

265 Rep. Butler Asks for clarification on rule four, seven and nine in regard to sub-committees of the committee. Asks which sub-committees would be meeting as public meeting and work sessions.

279 Chair Krummel Answers he does not intend to form a sub-committee but if a sub-committee was formed only to hear testimony he would appoint members to accept testimony. If there were work groups later in the session, he would ask for volunteers from members and the public.

298 **VOTE: 5-0-0**

Chair Krummel **Hearing no objection, declares the motion CARRIED.**

300 Chair Krummel Closes the organizational meeting and opens the informational meeting on the background of the Secretary of States Audit Division.

Secretary of State Audits Division - INFORMATIONAL MEETING

312 Chair Krummel Introduces Cathy (Catherine) Pollino and Chuck (Charles) Hibner from the Secretary of State Audits Division. Submits and reads from prepared testimony **(EXHIBIT B)**.

351 Cathy Pollino State Auditor, Audits Division, Secretary of State. Provides an overview of her office, their authority, her duties and the resource challenges in her division.

410 Pollino Presents the constitutional role, territorial statutes, independence concepts and the Secretary of State Audit Division's role from the background report of the Secretary of State Audits Division **(EXHIBIT C)**.

TAPE 2, A

051 Rep. Butler Discusses government accounting and standard management practices as it relates to the Secretary of State Auditor and sharing of funds with the federal government. Inquires about the number of CPA's employed in the department.

068 Pollino Responds she is not a CPA but most of the staff she employs are licensed.

071 Rep. Butler States the importance of understanding the standard of independence in order to keep the credentials, principles and the constitutional issues on sharing spending and accounting. States that the independent standards rely on other government organizations and non-government organizations when the US Constitution and Oregon statutes are not in place. Stresses the importance of federal compliance issues on the audits committee to protect the licensing of the CPAs.

Notes on the question of deadlines, accrual cash accounting and compliance issues on the board of CPAs, that they should comply, not because of federal law but because it is the way that the CPA's keep their licenses.

| | | |
|-----|---------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 108 | Pollino | Responds to the resource challenges and compliance laws. |
| 120 | Pollino | Introduces and presents Government Auditing Standards and types of audits: Financial audits, Comprehensive Annual Financial Report, Federal Compliance and Internal Control, and Opinion Audits (EXHIBIT C) . |
| 162 | Pollino | Presents Financial Management Examples: Resource Management Audits, Financial Compliance Audits, Change of Director Audits or Review (EXHIBIT C, Page 5) . |
| 186 | Chair Krummel | Asks what are the requirements for an audit on Measure 66 funds. |
| 190 | Pollino | Answers that they report each legislative session. They look to see if the funds being used are allowed in the Measure that was passed. |
| 200 | Pollino | Continues to present the requirements on compliance laws. |
| 280 | Pollino | Presents the Information Technology Audits and their goals (EXHIBIT C) . |
| 323 | Chair Krummel | Inquires about the University Systems Banner Student Information. States that he does not understand the banner system. |
| 325 | Pollino | Answers that the banner is the information system that does everything for higher-ed from keeping track of their accounting, payroll and student information, as well as track individual information. Student aid is also entailed. Explains that it is the umbrella to the state-wide financial management system. |
| 336 | Rep. Butler | Inquires about uniformity in that process, who uses the banner information system besides the Oregon University Systems and if the state court systems are on uniform platforms. |
| 355 | Pollino | Responds that she does not know. |
| 370 | Rep. Butler | Expresses concern about state court uniformity regarding information technology, when using the banner accounting system. |

- 391 Pollino Answers, with regard to the issue of Juvenile Courts, that they would like to implement uniformity across the counties.
- 402 Rep. Butler Asks about uniformity in the school system and state agencies. Requests that Ms. Pollino examine and investigate how many state agencies are on the same platform of uniformity and communication.
- 430 Pollino Responds that the State Financial Management System does tie almost every state agency together, but that there are differences.

TAPE 1, B

- 010 Rep. Butler Expresses concern about funding two agencies that run on two different platforms.
- 018 Chair Krummel States that he will pose these questions regarding information systems in the state courts to the state court administrator.
- 030 Rep. Butler Expresses he would like to see county auditors trained so that they are all on the same platform.
- 043 Chair Krummel Concurr.
- 046 Pollino Proceeds with her presentation on Investigations. Addresses the goals, individual allegation of fraud, waste, or abuse and prevention of future occurrences (**EXHIBIT C**).
- 063 Chair Krummel Inquires if the public made aware of abuse of public funds.
- 070 Pollino Responds that there is a poster posted in public places and a link on their website.
- 073 Chair Krummel Inquires if there is a phone number listed under state government.
- 075 Pollino Answers that she is not sure where it is in the phonebook.
- 078 Chair Krummel Expresses that he would like to see a phone number or something posted for the public to refer to.
- 092 Pollino Concurr. Continues to present the goal of the abuse investigation.

| | | |
|-----|---------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 131 | Chair Krummel | Asks if she is involved with the Union /Baker County ESD issue. |
| 133 | Pollino | Answers that it is being audited by an outside CPA firm but they are following up and looking for the results. |
| 136 | Chair Krummel | Asks if she will be reviewing or following up on the results. |
| 139 | Pollino | Responds that they are working with the DOE on what should take place. |
| 150 | Rep. Butler | Asks if the audit requirement for ESD is uniformed. |
| 157 | Pollino | Answers that all local governments, water districts, and school districts are uniform and her office does conduct desk reviews and are required to have annual financial audits depending on their size. |
| 169 | Rep. Butler | Expresses that municipal audits in Oregon are unique regarding the initial paperwork and special licensing. |
| 191 | Pollino | Proceeds with presentation on the measure of an audit. |
| 255 | Chair Krummel | Inquires about the Oregon Health Plan and the Public Employees Benefits Board. |
| 257 | Pollino | Responds that is with the Department of Human Service's contracts for Pharmacy Benefits Administrator. Proceeds with presentation on resource allocation (EXHIBIT C). |
| 301 | Pollino | Reviews the challenges, audit standard changes, Government Accounting Standard Board, Government Auditing Standard, Statement on Auditing Standards, Staff Reductions, Cyclical Workload and Management challenges (EXHIBIT C). |
| 373 | Chair Krummel | Asks about the end-of-the-year statements and if the books close in June. |
| 380 | Pollino | Answers that the books close on June 30 and the fiscal year end really impacts their resources. |

- 397 Rep. Butler Asks if this same format is true for biannual statements.
- 403 Pollino Answers that the financial statement comes out every year. Proceeds to present the contract audit cost increases (**EXHIBIT C**).
- 428 Pollino Reviews mandated audit work.

TAPE 2, B

- 010 Chair Krummel Asks if the State Accident Insurance Fund (SAIF) pays contract dollars.
- 021 Pollino Answers they get the cash. Continues to review mandated audit work.
- 043 Chair Krummel Comments in regard to State Agency Directors, noting the potential of audits being done every four years for each state agency that experiences a Director change.
- 050 Pollino Presents on legislative concepts for audit work.
- 067 Pollino Discusses cost saving audits, the economy, efficiency audits and school audits. States there are no performance audits but feels that they are very important.
- 085 Rep. Butler Asks if that policy package is being presented to Ways and Means.
- 087 Pollino Answers that they want to stay away from the education side of it and focus on the business practice side of it.
- 092 Chair Krummel Asks if she has ever thought about hiring an educator that would be responsible for going to the different school districts and looking at their educational programs to determine if they are actually getting the educational outcomes that they should be. Asks if they look for quality of teaching plans and relating information about students. Inquires if she has spent time with the administrators.
- 111 Pollino Responds that it has been considered. Comments on audits that were done on the fiscal side of accountability, looking for the economic issues, opposed to the quality of educational practices.

| | | |
|-----|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 126 | Chair Krummel | States his concern about having CPA auditors reporting about teaching quality, rather than teachers performing audits. |
| 156 | Pollino | Discusses teaching standards versus business qualities. States that she would like to try to help those agencies help on the business issues. |
| 183 | Chair Krummel | Addresses the consequences of having a former teacher auditing. |
| 196 | Rep. Rosenbaum | Asks what kind of follow-up is there concerning audit work. |
| 200 | Pollino | Responds that they are developing a follow-up system. |
| 226 | Rep. Rosenbaum | States that we need to all help fix accountability. |
| 228 | Pollino | Presents Data Mining and Investigations. |
| 257 | Chair Krummel | Asks is there an understanding that personal use is not funded. |
| 272 | Pollino | Responds there is a procedure in place to monitor the purpose and that the procedure is being used for quasi training, |
| 296 | Chair Krummel | Asks how much are the managers and workers getting and why are program managers not asking for it. States that he would ask for it on a monthly basis and states his concern. |
| 310 | Pollino | Explains the role of the worker, case-worker to manager and the lack of understanding of public funds. |
| 342 | Chair Krummel | Presents a brief closing statement and announces that there will be a meeting on Tuesday, January 18 2005. Closes the informational meeting on the Secretary of State Audits Division and adjourns the meeting at 10:31a.m. |

EXHIBIT SUMMARY

A. Rules, proposed Committee Rules, Staff, 2 pp

- B. Secretary of State Audits Division, prepared testimony, Cathy Pollino, 16 pp**
- C. Secretary of State Audits Division, Background Report, Cathy Pollino, 13 pp**