

HOUSE COMMITTEE ON AUDITS

January 18, 2005 Hearing Room D

8:30 A.M. Tapes 3 -4

(Corrected 2-14-05)

MEMBERS PRESENT: Rep. Jerry Krummel, Chair

Rep. Tom Butler, Vice-Chair

Rep. Alan Brown

Rep. Jackie Dingfelder

MEMBER EXCUSED: Rep. Diane Rosenbaum, Vice Chair

STAFF PRESENT: Jim Keller, Committee Administrator

Kellie Whiting, Committee Assistant

MEASURES / ISSUES HEARD:

Secretary of State Audits Division- Informational Meeting

Oregon University Systems Review of Payroll Increases-

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 3, A		
010	Chair Krummel	Calls the meeting to order at 8: 41 a.m. and opens the informational meeting on the Secretary of State Audits Division.

Secretary of State Audits Division - INFORMATIONAL MEETING

018	Chair Krummel	Introduces Catherine Pollino and Chuck Hibner to finish up the presentation of the Secretary of State Audits Division.
028	Chuck Hibner	Deputy State Auditor, Secretary of State Audits Division. Submits and reviews background report on the Audits Division (EXHIBIT A). Touches on the projects they are handling. Recaps on the fieldwork they are conducting.
106	Rep. Dingfelder	Asks if their office conducts audits on contracting procedures for Women Business Enterprises or Minority Business Enterprises under the OTIA contract.
122	Hibner	Responds that it is possible that the contract will have some auditing concerns in regard to compliance issues.
153	Hibner	Informs that the fieldwork is in the early stages and hopes to have results in February.
217	Rep. Dingfelder	Asks how the firm works in determining if grants are being used and if it is conducted as an independent audit.
228	Hibner	Responds that he does not know if there is a specific procedure and will find out.
230	Rep. Dingfelder	Comments that most grants go to local government and economic development, and asks if their office follows the same procedure.
236	Pollino	States that they are financial statement opinion audits and is within their authority.

246	Hibner	States there are services in place to monitor the grants.
252	Rep. Dingfelder	Responds that she would like to see these policies.
256	Chair Krummel	Refers to page three and asks Mr. Hibner to clarify how they determine what <i>fairly accurately</i> is.
290	Pollino	Responds that they look at how the statements are presented and if they comply with generally accepted auditing principles.
308	Rep. Butler	Indicates that CPAs work on a statistical sample process and a confidence factor.
312	Hibner	Concurs.
327	Rep. Butler	Clarifies that samples are being used to get statistical examples but if there are variables within the confidence levels you have to increase the size of the sample in order to maintain the 95% accuracy requirement.

TAPE 4, A

018	Chair Krummel	Responds that this process is specifically regarding material aspects.
019	Rep. Butler	Compares the past with present complications for CPAs in regard to detailed asset lists.
071	Chair Krummel	Requests a more complete report on the goals and asks to have it included as a part of the audit itself. Stresses the importance of understanding the audits.
100	Pollino	Explains the summary section in the audit reports and the requirement standards.
114	Rep. Butler	Asks if there is any where for K-12 district administrators to turn to in regard to the policy package options.
120	Pollino	States there is no formal mechanism established to provide them with resources.

- 131 Rep. Butler States that the Secretary of State's Office should have the resources to provide this.
- 150 Chair Krummel Closes the informational meeting on the Secretary of State Audits Division and opens the informational meeting on Oregon University Systems review of payroll increases.

Oregon University Systems Review of Payroll Increases- INFORMATIONAL MEETING

- 154 Pollino Introduces the OUS Review of Payroll Increases. Gives a brief background of the report.
- 197 Sandy Hilton Audit Manager, Secretary of Audits Division. Refers to the Oregon University Payroll Increase Summary (**EXHIBIT B**) and provides a background on the purpose of the review.
- 256 Hilton Continues to present the increases in payroll. Mentions that their office questioned 120 payroll increases with an estimated total of \$800,000 for the biennium. Discusses the increases that they did not question.
- 289 Rep. Butler Asks what determined if the contracts were open or in progress.
- 306 Hilton Responds that documentation made prior to May 27th were not in question.
- 331 Hilton Explains the exceptions. Covers the increases given throughout the universities. Provides examples of granted increases given to facility that were approved prior to the date. Explains that these increases made up half of the audited amount. Notes that they did review the increases and less than 10% of the increases in question were given to eleven individuals for any given reason.

TAPE 3, B

- 010 Rep. Butler Demonstrates his perspective on the importance of deadlines, funding and compliance issues.
- 075 Rep. Butler Explains the responsibility and weight of budget notes with legislative intent.

144	Chair Krummel	Asks Ms. Hilton how much of an increase in payroll will occur beyond this biennium due to the \$ 810,000 increase.
156	Hilton	Answers that they limited their review to the current biennial.
162	Chair Krummel	Asks if they anticipate a roll-up cost for future bienniums.
168	Hilton	Expresses that more research will need to be done in order to give an accurate answer.
170	Chair Krummel	Asks if the Oregon University System (OUS) uses the payroll system coding or is that a process that the Department of Administrative Services does.
176	Hilton	States that the OUS uses a de-centralized banner system.
190	Chair Krummel	Asks which groups of employee salaries were frozen.
200	Hilton	Answers that unionized staff's salaries were frozen on September 16th. States that information technology employees were affected as well.
215	Chair Krummel	Asks if there were increasing salaries prior to September 16th.
217	Hilton	Answers that there were salaries above and beyond scheduled merit increases that were questionable.
231	Chair Krummel	Asks how many more questionable increases there could have been if all seven campuses would have been looked at opposed to just two universities.
240	Hilton	Responds that they would not like to respond without all the research.
253	Chair Krummel	Refers to page five and inquires about the cost for matching funds for the state.
279	Chair Krummel	Clarifies his question. Asks if any of the increased costs are related to personnel costs.
299	Pollino	

Answers that it was based on the salary increase for an individual salary.

307 Chair Krummel Refers to page seven and asks if there are any other recommendations to bring OUS into compliance.

318 Pollino Responds that it is an informational report.

TAPE 4, B

003 Chair Krummel Inquires on the cost and time of the audit in question.

007 Hilton Responds that she does not know the cost or time but could provide that at a later time.

018 Chair Krummel Reiterates that this audit was a result of a hotline tip. Requests to see the amount of time spent along with the cost to conduct this audit. Expresses his concerns about the money spent on this audit.

036 Neil Bryant Attorney and Consultant for the Oregon University System. Introduces Loraine Davis, President of Academic Affairs University of Oregon; Mark Cambridge, Vice President for Finance Administration at Oregon State University and Patti Snopkowski, Internal Auditor for the Oregon University System. Clarifies that the position of the Secretary of States Office is that the grants should not be granted if after the effective date. Discloses that he only knows of two instances where the July 1 date was breached. Notes that the communication between the universities and sub-committees are not perfect. Responds to the recommendations Chair Krummel addressed and concurs that there should be a more effective coding system.

163 Rep. Butler Expresses his concerns in regards to the expense and time that was spent on the audits. Poses his concern regarding the amount of CPAs and staff who were employed to conduct this audit along with how they allocated their resources.

190 Chair Krummel Addresses the apparent semantics and the concern in regards to the procedure of the audit. Addresses the notion of an intended salary freeze in December. States his concerns about how upfront the universities were with the Ways and Means Committee prior to the phone call initiating this expensive audit. Poses his concern about the necessity of having valuable professors. States that the resources

being spent on this process is not helpful. Indicates that he would like to send an informational letter to ways and means about the findings.

- 320 Chair Krummel Asks if the House Audits Committee would support sending a letter over to the Ways and Means Committee.
- 328 Rep. Butler Approves.
- 329 Rep. Brown Approves.
- 330 Rep. Dingfelder States her concerns about the fairness for qualified staff and the challenges they face with the salary freeze.

The following prepared testimony is submitted for the record without public testimony:

- Chuck Hibner Submits Oregon Audit Division Budget Summary (**EXHIBIT C**)
- 359 Chair Krummel States that he will draft a letter. Closes the informational meeting on the Oregon University Systems payroll increases and adjourns the meeting at 10:33 a.m.

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EXHIBIT SUMMARY

- A. Secretary of State Audits Division, background report, Cathy Pollino, 16 pp
- B. Oregon University Systems, Payroll Increase Summary, Cathy Pollino, 7 pp

The following material is submitted for the record without public testimony:

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C. Audits Division, Budget Summary, Chuck Hibner, 2 pp