

HOUSE COMMITTEE ON AUDITS

February 03, 2005 Hearing Room D

8:30 A.M. Tapes 15 - 16

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:

**Oregon Department of Forestry's Response to the Secretary
of State's 2004 Fiscal Audit – 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
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TAPE 15, A

003 Chair Krummel Calls the meeting to order at 8:44 am and opens the informational meeting on the Forestry Department's response from the Secretary of State's 2004 fiscal audit.

Oregon Forestry Department's response from Secretary of State's 2004 Fiscal AUDIT – INFORMATIONAL MEETING

014 Cathy Pollino Director, Secretary of State Audits Division. States they conduct annual audits and interview 15-16 different agencies. Comments the collection of information is done through interviewing the agencies, and issuing the management letter about the findings. Submits and explains the management letter sent to the Oregon Department of Forestry, from the Audits Division (**EXHIBIT A**). Submits the corrective action plan letter, from the Oregon Department of Forestry (**EXHIBIT B**).

055 Rep. Butler Clarifies this is not a comprehensive audit of the agency and asks what generated this particular audit.

058 Pollino Responds the audit is a part of the annual audit of financial statements and the management letter is the findings based on the audit conducted, including responses from the audit and corrective actions. Refers to (**EXHIBIT A**) and describes the contents of the management letter.

078 Rep. Butler Clarifies it is a part of the comprehensive annual audit and the accounts are available on the financial statements of the agency, including un-reconcilable accounts. Asks if not having the books up-to-date prior to the audit is standard operating procedure.

091 Pollino Responds they are included in the annual financial statement.

092 Rep. Butler Inquires why the items are un-reconcilable.

101 Nancy Young Audit Manager, Secretary of State Audits Division. States there are irreconcilable accounts due to the time it takes to identify the money and get it transferred to the correct accounts.

107 Rep. Butler Inquires if the un-reconcilable accounts are included in the June 30th fiscal year end and if they are able to reconcile and close these accounts.

121 Young

Concurs. Responds the books do not close until sometime after June 30th and they do have time to reconcile the accounts.

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| 122 | Rep. Butler | Inquires if it is standard operating procedures to leave accounts un-reconciled. |
| 133 | Young | Clarifies there are agencies that do have un-reconcilable accounts and the agencies may be limited to resources or staff. States there are requests to reconcile accounts. |
| 141 | Rep. Butler | Comments he is not satisfied with the answer. |
| 144 | Young | Refers to (EXHIBIT A) and refers account 503. Clarifies it is an accrual account for fire fighting costs and are submitted for reimbursements from insurance carriers. |
| 155 | Rep. Butler | Inquires if there are un-reconcilable accounts that are considered assets. |
| 167 | Young | Responds when they exited with the Department of Forestry, \$17, 480, 951. was the left in the account. Responds she cannot responds on what has been collected to date. States the account will be followed up on the following year. |
| 177 | Young | Refers to page two and explains the contracts. Refers to page three and explains the internal controls over cash handling findings. Refers to page four and describes the recommended corrective actions. |
| 232 | Rep. Butler | Inquires if it is an ongoing audit. |
| 243 | Young | States it is a repeat audit in regards to cash handling. |
| 246 | Rep. Butler | Inquires about their response from the other audits. |
| 253 | Young | Responds the Department of Forestry is responding in an appropriate manner to the findings and is making changes. |
| 271 | Rep. Butler | Expresses concern over the unaddressed issues in regards to inappropriate cash handlings. |

283	Young	States this has been ongoing concern for three years.
288	Rep. Butler	Reiterates his concern and asks for the reason for not being able to communicate the recommendations.
312	Pollino	Responds the Department of Forestry has now hired an internal auditor to assist in internal controls.
330	Rep. Butler	States the external auditors are reporting multiple findings and the findings are not being addressed.
368	Chair Krummel	States this should be addressed in Ways and Means.
374	Young	Refers to page four and discusses the internal controls over the payroll process.

TAPE 16, A

010	Chair Krummel	Inquires how many of these concerns were repeat findings from last year.
014	Young	Responds that timesheets are an area of concern in regards to repeat findings. Refers to pages four and five and explains the recommendations for correction.
033	Rep. Butler	Inquires about the procedure to recover the wage.
041	Young	Responds the legal department would advise direction.
050	Rep. Butler	States the over-payment sections are located in the accounting manual and requests a copy of it.
061	Young	Refers to page five and explains the concerns about internal controls in regards to accounts receivable.
098	Chair Krummel	Clarifies that 18 months went by before the new invoice was issued.
100	Young	States the Department of Forestry reissued the invoice and a small amount still needed to be invoiced.

119	Rep. Butler	Inquires about the confirmation invoices.
123	Young	Responds she will submit the information at a later time.
125	Rep. Butler	Comments on the confirmation of the adjustments needed.
163	Young	States when the confirmation reports were looked at, there were inquires and additional information conducted to determine the recommendations and resolve the accounts.
183	Rep. Butler	Inquires if confirmation letters were sent out the prior year.
191	Young	Responds this is the first year they have audited accounts receivable.
200	Rep. Butler	Clarifies the error rates were not material and could have been resolved.
208	Young	Continues to present the recommendations for accounts receivable.
215	Chair Krummel	Inquires about ORS 477 in regards to collections agencies. Asks if there was a recommendation made.
228	Young	Responds it was not included in the recommendation. Responds about the concern of invoices issued in error.
248	Young	Refers to page five and six, presents the repeat findings on next day deposit testing, and explains the recommendations. Refers to page six and presents findings on the inappropriate use of state lands.
306	Chair Krummel	Clarifies that all three times the employee relocated, it was found to be unjustified.
310	Young	Concurs.
315	Chair Krummel	Inquires why the state is paying closing costs. Inquires if it is policy.
323	Young	Responds reasonable moving costs are a part of policy, but the expenses in question are questionable. Explains the reimbursements that are not justified, questionable and prohibited.

362 Chair Krummel Clarifies expenses for recognition, other than retirement and resignation are not expectable. Inquires why the department policies are different from the state policy. Inquires about staff time used to conduct these occasions.

410 Young Responds it does take staff time to organize, plan, and attend retirement parties.

TAPE 15, B

002 Chair Krummel Inquires how the Audits Division is made aware of the parties.

005 Young States they did see the invitation and concerned employees notified them.

012 Rep. Butler Inquires if moving costs are recoverable.

026 Young Responds about additional expenses that would be reasonable.

037 Rep. Butler Inquires if there are provisions for hiring an executive position.

042 Young Concurr. Explains the first finding, on page three in regards to financial accounting.

064 Chair Krummel Inquires if the Department of Forestry was cooperative and provided information in a prompt manner.

067 Young Concurr.

077 Chair Krummel Requests information regarding when a document is made public.

081 Pollino States the information would be made public as soon as possible.

101 Chair Krummel Inquires if they are going to post the finding and response on the web site.

106 Pollino Responds the website posting includes the management reports.

111 Rep. Dingfelder Inquires if there is a policy in regards to posting the audits.

121	Pollino	Responds the policy is new and there is policy in place to ensure that the agencies have an opportunity to respond before posting.
132	Rep. Butler	Inquires if there had been a change in director, and inquires if Ms. Pollino will work with the internal auditors.
140	Pollino	Concurs.
149	Clark Seeley	Associate State Forester, Oregon Forestry Department.
163	Chair Krummel	Inquires if there is a conflict of interest in regards to quality assurance and having an internal auditor.
174	Seeley	Explains that the role of the internal auditor and states she reviews and makes recommendation.
184	Chair Krummel	Clarifies the role of the internal auditor.
187	Seeley	States they are in the process of creating an audit committee within the agency and that body will be in charge of reporting.
207	Rep. Dingfelder	Inquires if the management report will be presented to the board and asks if the presentation is standard practice.
218	Seeley	Responds there will be an audit member on the Board of Forestry.
227	Rep. Dingfelder	Inquires if the response has been given to the Department of Forestry.
229	Seeley	States the full response will be given to the Department of Forestry.
234	Seeley	Comments the agency is committed to developing more controls. States the committee does review the annual audit with the Secretary of State staff as part of the ongoing effort. States the corrective actions have taken place during the actual audits. States the department is committed to making the necessary changes and follow recommendations.
305	Seeley	States they have revised policies in regards to recognition and relocation issues.

- 333 Chair Krummel Expresses concern in regards to employer recognition programs.
- 372 Seeley Provides background on the employer recognition programs and retirement parties.

TAPE 16, B

- 002 Seeley Continues to address the clarifications needed to understand and comply with the appropriate procedures. States the policy is broad in regards to the amounts that can be expended on a function.
- 041 Chair Krummel Comments on the accountability in government.
- 056 Rep. Butler Comments on the inappropriate use of state funds. Inquires if they thought it was appropriate to utilize state funds to purchase gifts.
- 066 Seeley States the items for service recognition are chosen by employees, which includes pens or wall plaques.
- 076 Rep. Butler Inquires if the Oregon Accounting Manual is vague and asks where they get the interpretation.
- 082 Seeley States the State Controller's Division provides the clarifications needed in regards to service recognition and retirement policies.
- 089 Rep. Butler Inquires about the repeat findings in regards to cash handling and internal controls.
- 109 Seeley States the issues were not ignored, but there was a lack of communication and a failure in understanding broad policy. Notes significant communication changes and better internal controls are there intent.
- 124 Chair Krummel Inquires if the policies and procedures in regards to cash handling, are in place and being used.
- 134 Seeley Responds the policies are being used but mistakes have been made.
- 139 Rep. Dingfelder Comments there should be regular training to review policy and review procedures.

167	Seeley	Concurs. Comments there have been administrative conferences to review issues, update the administrator manual and to train managers on how to exchange communication.
178	Rep. Rosenbaum	Inquires about moving expenses and asks if employees are required to repay the expenses.
185	Seeley	Responds they are not at this time. Comments they are researching how to accomplish the re-payment.
199	Chair Krummel	Inquires if there are consequences if agencies refuse to follow the policies in place.
203	Seeley	Responds it depends on the intent. Comments there are policies in place for non-compliance, but not for lack of understanding.
221	Chair Krummel	Inquires if there is training available to new or promoted employees, so competency is not an issue.
236	Seeley	Concurs. Explains the orientation process.
254	Chair Krummel	Inquires if the training is one-on-one, or a conference approach.
273	Seeley	Responds it is both.
285	Chair Krummel	Inquires why they would not contract with the Department of Administrative Services for payroll.
297	Seeley	Responds their payroll system is standard and there is no reason why they should not work with DAS. Notes there are two employees in payroll.
330	Chair Krummel	Requests them to come back. Closes the informational meeting on the Forestry Department's response to the Secretary of State's 2004 fiscal audit. Adjourns the meeting at 10:33 a.m.

EXHIBIT SUMMARY

- A. **Oregon Department of Forestry, management letter, Cathy Pollino, 7 pp**
- B. **Oregon Department of Forestry, corrective action plan letter, Cathy Pollino, 22 pp**