

HOUSE COMMITTEE ON AUDITS

March 03, 2005 Hearing Room D

8:30 A.M. Tapes 28 - 29

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:

Statewide Single Audit Report – 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 28, A

002	Chair Krummel	
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Calls the meeting to order at 8:40 a.m. and opens the informational meeting on the Statewide Single Audit Report.

STATEWIDE SINGLE AUDIT REPORT – INFORMATIONAL MEETING

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| 012 | Cathy Pollino | Secretary of State Audits Division. Refers to and explains the Statewide Single Audit Report (EXHIBIT A). Explains there are financial and federal components to the report. Notes they audit 125-130 accounts for 18 agencies. |
| 056 | Kelley Olson | Audit Manager, Secretary of State Audits Division. States they are required to publish the financial statement report and the federal compliance report. Refers to the compliance audits and the opinion of federal compliance audits on page one through three. Refers to the schedule of expenditures for federal awards on pages seven through thirty-eight. Refers to page 56 and describes the 15 contracted programs, financial statements findings and results relating to federal programs. Refers to page 81, explains the federal awards findings, and questioned costs. |
| 113 | Rep. Butler | Inquires if there are rebates for variances or discrepancies. |
| 122 | Olson | Responds the federal government follows up and provides guidelines. Explains the reporting requirements from the federal government. |
| 132 | Rep. Butler | Clarifies the federal government sorts the variances out with the agencies themselves if the allowance is over \$10,000 and the Secretary of State Audits Division is the collector. |
| 142 | Olsen | Refers to page 81 through 99 and explains the findings in which are in question. |
| 150 | Rep. Butler | Clarifies the findings would show weaknesses in internal control or expenditure management. |
| 159 | Olson | Concurs. Refers to page 81 and comments on the questioned costs. Refers to page 100 and explains that the Audits Division is required to report prior year findings until corrective action is reported. |
| 180 | Rep. Butler | Inquires about the scope of the audit for the University System. |
| 189 | Olson | |

Responds the Secretary of State Audits Division did not audit the University System, but it in fact relies on the contracted auditors results.

- 193 Rep. Butler Inquires who were the samples were taken from.
- 196 Olson Refers to page 56 and notes the federal program audited for the University System was the student financial system.
- 199 Rep. Butler Inquires about the programs listed on page 56 and asks which programs did in fact have findings.
- 202 Olson Responds that if the programs did not have findings, it would not be listed. Explains that the list reflects all programs audited.
- 212 Rep. Butler Inquires about the amounts for federal grants and awards findings.
- 231 Olson Responds that in the federal guidance for programs reviewed, there are thresholds for calculation. States that the federal government requires to risk assess programs greater than 1.8 million dollars.
- 245 Chair Krummel Refers to page 56 and asks if there is a relationship.
- 251 Olson Responds about the total amounts on page 56 and explains the thresholds. Responds about the required audits. Clarifies about the cluster programs listed on page 56.
- 268 Rep. Rosenbaum Inquires about the corrective action for discrepancies.
- 271 Olson Responds the federal programs are not bound by their findings.
- 280 Jim Keller Committee Administrator. Inquires about the circumstance in which would create the negative numbers listed on page seven.
- 289 Olson Responds they will research the information and comments the agency may have had a reduction in expenditures.
- 302 Pollino Responds it is a timing issue.
- 305 Rep. Butler

Inquires how the known deficiencies are included in the overall capitol reports.

- 323 Olson Responds the federal government also conducts reviews.
- 339 Rep. Butler Inquires if they notify the federal government.
- 344 Olson Responds they are required to inform the federal government of an accusation against a federal program.
- 346 Rep. Butler Reiterates they have never has an accusation against a federal program.
- 350 Olson Responds there could have been an accusation, but it may not have been noted as a specific federal program.
- 352 Pollino Responds about the flexibility and requirements.
- 359 Rep. Butler Comments on the possibility of county governments participating in certain programs in Oregon.
- 425 Olson Responds about page 38.

TAPE 29, A

- 004 Rep. Butler Responds.
- 006 Olson Responds and refers to page 38 and explains the cases of required audits.
- 017 Rep. Butler Comments on the programs administered through the state, with the local commissioners delivering the services.
- 029 Olson Responds about the Secretary of State Audits Division's responsibility.
- 030 Rep. Butler Comments on program delivery and administered costs in Kansas.
- 039 Chair Krummel Inquires if Kansas has seen lower costs.

044	Rep. Butler	Responds about local tax dollars expended in Kansas and explains the services for people. Comments on the local accountability issues.
076	Olson	Continues to presents page 100 and page 112. Explains the process for reported findings and the schedule of prior financial statement findings for the years ended in June 2003 and 2002.
094	Rep. Dingfelder	Inquires if a federal agency has refused to send payments until issues are resolved.
098	Olson	Responds that decisions were made in regards to the Department of Human Services' Medicaid Program.
103	Rep. Dingfelder	Inquires if the issue has ever come up.
107	Olson	Responds about the federal government corrective actions.
114	Neal Weatherspoon	Audit Administrator. Explains the financial and federal compliance work in the report. Discusses the internal audit work for the Department of Human Services. Explains the findings on page 58. Talks about the accounts audited including cash accounts within the general fund. Notes about 90 of the cash accounts audited, were unreconciled accounts. Explains the difficulties of staff duties in terms of cash handling.
213	Rep. Butler	Inquires if the segregation of duties is a state problem or with a single agency.
220	Weatherspoon	Responds the issues were in the central office.
222	Rep. Butler	Expresses concern over the segregation of duties in terms of cash handling. Inquires if it was a repeat finding.
230	Weatherspoon	Responds it was a new account and was never audited before. Comments the staff was never sufficient to fulfill the duties.
239	Rep. Butler	States the managers should understand the importance of internal controls and management skills.
255	Chair Krummel	

States the Oregon Accounting Manual on sight was outdated.
Comments about the separation of cash duties and asks if the agency addressed the compensating controls.

- 278 Weatherspoon Responds there was a lot of discussion after the findings in regards to the primary controls and found that dual custody is necessary.
- 303 Rep. Dingfelder Inquires if the issue was detected by an internal auditor or an external auditor.
- 312 Weatherspoon Responds how the weakness was detected.
- 327 Pollino Responds about the risk assessment process.
- 343 Chair Krummel Inquires if there is a sample to reflect the amount of cash in question.
- 350 Weatherspoon Responds the amount totaled approximately 80 million. Explains why the amount was so large.
- 403 Weatherspoon Describes the audit on page 100 and explains the general findings with respect to internal control.

TAPE 28, B

- 002 Weatherspoon Continues to describe the internal control weakness on page 100. Refers to the findings and questioned costs on pages 86, 90, 91 and 92.
- 041 Rep. Rosenbaum Inquires if they are the primary auditors for maintenance of effort.
- 047 Weatherspoon Concur. Explains the objective to ensure compliance with the federal requirements.
- 108 Rep. Rosenbaum Asks what the consequence is for not complying.
- 112 Weatherspoon Responds the consequence is from the federal government.
- 115 Rep. Rosenbaum Inquires if they are in a position to look at items that are taken advantage of.

120	Weatherspoon	Responds they look at appropriate action and do not look at opportunities lost.
124	Amy Pollasio	Senior Auditor, Secretary of State Audits Division. Explains the audit on the Public Employees Retirement System (PERS) issue. Refers to page 60 and explains the three accounts the division did not feel that PERS was reconciling in a timely manner.
185	Chair Krummel	Inquires how much of the un-reconciling issues pertains to information systems.
192	Pollasio	Explains how the information system plays a significant role.
208	Chair Krummel	Inquires if the new system JClarity will help.
213	Pollasio	Responds PERS would have to address that.
230	Chair Krummel	Inquires about the response of PERS. Inquires if there is any indication of cleaning up the problem before 2009.
244	Pollasio	Responds about the timeframe and the number of clearing accounts.
258	Rep. Brown	Inquires about the possibility of over payment.
266	Pollasio	Responds there is a magnitude of data and there are many variables that contribute to confusion and problems.
284	Chair Krummel	Comments about the limitation and difficulties the department faces. Comments on the systems used, changes in directors and expenditures for resources.
343	Rep. Brown	Comments on the confusion.
345	Chair Krummel	Asks about the Department of Corrections and the mail opening procedures on page 62. Comments on the fact that inmates are opening departmental mail. Refers to page 63 and inquires about the ability to use inmates and the evaluation process.
423	Pollino	Responds they will follow up on the issue.

TAPE 29, B

003	Chair Krummel	Inquires if there are compensating controls that can be used.
008	Pollino	Responds it is possible if done intelligently and effectively.
022	Chair Krummel	Comments about the issues in regards to cash handling, cash controls, and cash management. Comments that there is the potential for serious flaws, if management is not training properly and if internal controls are not in place. Closes the informational meeting on The Statewide Single Audit Report and adjourns the meeting at 10:12 a.m.

EXHIBIT SUMMARY

A. Secretary of State Audits Division, Statewide Single Audit Report, Cathy Pollino, 118 pp