

**HOUSE COMMITTEE ON AUDITS**

**March 08, 2005 Hearing Room D**

**8:30 A.M. Tapes 37 - 38**

**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:**

**Change in Department Head Audit – Informational**

**Meeting**

**HB 2027 – Public Hearing and Work Session**

**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.**

<b>TAPE/#</b>	<b>Speaker</b>	<b>Comments</b>
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**TAPE 37, A**

002 Chair Krummel Calls the meeting to order at 8:40 a.m. and opens the informational meeting on the Change of Department Head Audit.

**CHANGE IN DEPARTMENT HEAD AUDIT – INFORMATIONAL MEETING**

006 Cathy Pollino State Auditor, Secretary of State Audits Division. Refers to lines 25-27 of HB 2027. State the language is vague and gives a background of the procedure in regards to auditing a department head when he resigns or leaves. Discusses the review for a change in department head. Notes the value of the review has diminished. Notes 47 reviews have been conducted 47 and the cost was \$800,000. Comments the reviews vary from 12 hours of staff work to 1,200 hours of staff work. Comments on the resources for conducting audits should be focused on the highest risk situation.

084 Nancy Young Audit Manager, Audits Division. Submits and reads from the response letter explaining the review conducted and the findings **(EXHIBIT A)**. Speaks about the audit review conducted when Richard Jarvis resigned from the chancellor's position with the Oregon University System. Discusses the components reviewed including travel expenses, phone calls, payroll disbursements, assets and a final payment from the Oregon University System (OUS). State there was a payment made because of a Resolution of Employment Agreement and Release negotiated agreement between the former chancellor and OUS.

153 Chair Krummel Inquires about the assets they reviewed.

159 Young Responds it includes vehicles, cell phones, computers and keys. States they were all returned.

165 Chair Krummel Inquires about the travel expenses.

172 Young Responds all travel expenses were appropriate and did pertain to OUS.

176 Rep. Butler Inquires about OUS's uniformity in regards to the approach in examining contracts.

186 Young

Responds the final payment is unique to the Audits Division in regards to change in director reviews, but is not unique to OUS.

- 193 Rep. Butler Inquires if the review was addressed in regards to other directors.
- 201 Pollino Responds they have not seen other contracts like these in any other state agencies.
- 209 Rep. Butler Comments about the last payroll checks, and inquires if it is a problem for other agencies with a change in directors.
- 216 Pollino Responds she is unsure.
- 220 Rep. Butler Comments that there has to be checks and balances.
- 225 Rep. Brown Refers to **(EXHIBIT A, Page 2)** and asks for clarification in regards to the \$250,000 plus salary and benefits paid to the former chancellor.
- 234 Young Responds in this circumstance, the contract for employment was terminated early and was a negotiation process between OUS and Mr. Jarvis. States this is unique to the Audits Division.
- 249 Rep. Brown Inquires if this happens in other state agencies.
- 251 Young Clarifies the termination was mutually agreed upon.
- 259 Pollino States some agencies have at-will contracts and some have time contracts. Notes that in this case it was on a time contract, which was terminated early.
- 268 Chair Krummel Inquires about standard severance packages.
- 280 Pollino Responds there are packages for high-end employees. Comments they are looked at closely.
- 305 Chair Krummel Inquires if there are rules or statutes addressing employees working as financial officers are required to take one-week vacations so the internal auditors can perform audits on the books.
- 319 Pollino Responds she is not aware of any such requirement.

- 322 Chair Krummel Inquires about what the outcome would have been if it were a financial review versus an audit.
- 330 Pollino Responds this was a review and not a full -blown audit. Describes the services they perform in regards to reviews.
- 358 Chair Krummel Inquires about the cost for the review.
- 362 Pollino Responds it cost around \$5,000, which included travel cost. Notes it took two weeks of staff time.
- 376 Chair Krummel Inquires who paid for it.
- 378 Pollino Responds it was part of the over all agency assessment they pay the audits division.
- 388 Rep. Brown Inquires who the chancellor answers to.
- 398 Chair Krummel Responds the chancellor answers to the State Board of Education. Closes the informational meeting on the Change of Department Head Audit and opens the public hearing on HB 2027.

### **HB 2027 – PUBLIC HEARING**

- 428 Jim Keller Committee Administrator. Reads HB 2027.

### **TAPE 38, A**

- 014 Cathy Pollino State Auditor, Secretary of State Audits Division. Submits and refers to prepared testimony (**EXHIBIT B**). Testifies in support of HB 2027. Refers to lines six through eleven of HB 2027 and discusses the language in regards to the audit work. Explains the costs for audits conducted on small boards. Notes she would like to change the terminology to allow reviews and not limit it to an audit, to keep costs down and utilize their time and resources wisely in regards to auditing small boards.
- 091 Chair Krummel Inquires about the small boards and asks if the Audits Division provides the estimates costs.

096	Pollino	Concurs.
105	Chair Krummel	Inquires if there is any reason why the financial reviews should not be taken out.
117	Pollino	Responds and refers to lines 10 and 11 of HB 2027.
123	Rep. Butler	Inquires about acceptance and the contracted state of the independent Certified Public Accountants.
139	Pollino	Responds they do contract for the reviews and gives her opinion of the intent of the bill.
140	Rep. Butler	Clarifies this codifies a process that is already being done in regards to small boards.
143	Pollino	Concurs.
146	Rep. Butler	Comments about the vendor collected administrative service fees.
156	Pollino	Responds there is a small amount of time spent on administering these contracts.
162	Rep. Butler	Comments about the printing and distributing offices.
166	Pollino	Responds about the concept of managing the boards.
174	Rep. Butler	Comments about the statement on auditing standards (SAS).
190	Pollino	Responds there are tools to identify fraud and proactive measures used.
207	Rep. Butler	Comments on the importance to have good management who can diligently test and monitor internal controls.
224	Pollino	Continues to testify in support of HB 2027. States HB 2028 goes hand in hand.
260	Chair Krummel	Comments on HB 2028.

282	Pollino	Comments about the fiscal impact and requirements of HB 2027.
289	Chair Krummel	Refers to section eight of HB 2027 and comments in regards to the audit of sheriffs who perform services for the state.
301	Bob Keith	Administrator, Appraiser and Certification Licensure Board. Testifies in support of HB 2027.
325	David Plunkett	Oregon Board of Optometry. Testifies in support of HB 2027.
383	Rep. Butler	Inquires if the board anticipates a need for a higher- level audit.
396	Plunkett	Responds a financial review would be adequate.
426	Rep. Butler	Reiterates about importance of good management.

**TAPE 37, B**

011	Chair Krummel	Closes the public hearing on HB 2027 and opens a work session on HB 2027.
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**HB 2027 – WORK SESSION**

014	Rep. Butler	<b>MOTION: Moves HB 2027 to the floor with a DO PASS recommendation and BE REFERRED to the committee on Ways and Means.</b>
032	Rep. Dingfelder	Recommends rescinding the subsequent referral to Ways and Means.
033	Chair Krummel	Stands at ease to call the speaker’s office.
039	Rep. Butler	<b>Withdraws his motion.</b>
044	Chair Krummel	<b>Accepts Rep. Butler’s withdrawal.</b> Comments he would like time to talk with the speaker’s office and come back to HB 2027 next week. Closes the work session on HB 2027.
055	Rep. Butler	Comments about HB 2474.

068            Chair Krummel            Adjourns the meeting at 9:50 a.m.

**EXHIBIT SUMMARY**

- A. **Secretary of State Audits Division, response letter, Nancy Young, 4 pp**
- B. **HB 2027, prepared testimony, Cathy Pollino, 1 p**