



FEBRUARY 2017 PROGRESS REPORT: IMPROVEMENTS TO DOGAMI BUSINESS PRACTICES

Issue In March 2015, the Oregon Department of Geology and Mineral Industries (DOGAMI) did not have a clear picture of its financial condition and was facing a budget shortfall. Additionally, under resourced and out of compliance Information Technology (IT) operations put its valuable data holdings at risk. Since 2015, significant steps have been taken and progress made to improve DOGAMI's business and IT practices.

This report is an update to the SB 5512 (2015) Budget Note report on improvements made to DOGAMI business practices which was provided in February 2016 to the Joint Committee on Ways and Means Subcommittee on Natural Resources. Also included is an update on the progress made subsequent to the December 2015 DOGAMI IT Assessment prepared by Enterprise Technology Solutions on behalf of the Office of the State Chief Information Office (OSCIO) and presented in February 2016 to the Joint Committee on Information Management and Technology.

Background In March 2015, DOGAMI identified a need to review the agency's financial condition in order to address uncertainties that included a shortfall in the agency budget. The agency needed to identify and correct the problems that led to the 2015 budget shortfall in order to operate with the accountability and transparency expected of a state agency. An experienced multi-agency team led by the Department of Administrative Services (DAS) performed an independent review of the agency's financial status and business practices and determined multiple changes were needed for the agency to effectively monitor its finances and manage its business. Further examination of the agency's business model was also identified as being necessary to ensure long-term financial and operational stability. The SB 5512 (2015) Budget Note identified six specific actions the agency needed to take in order to improve its financial and business practices. Additionally, DOGAMI has partnered with the OSCIO to address its IT budget and operations deficiencies.

Audits Two financial audits were conducted in 2016. The Secretary of State, per DOGAMI request, and the Federal Emergency Management Agency (FEMA) conducted an audit on DOGAMI's management of federal funds. Specific recommendations from the Secretary of State audit and DOGAMI responses are included below by topic area. FEMA conducted an audit with the purpose of providing guidance and recommendations to enhance the agency's efforts in managing federal funds. The review encompassed eight FEMA grants managed by DOGAMI. No audit findings were reported by FEMA.

Budget Note Action Items

Outlined below are descriptions of 1) remedial work completed, 2) efforts underway, and 3) future actions the agency must complete to ensure long-term financial and operational stability.

Action Item 1: *Reorganize accounting and budget structures, including creating an accounting and budget structure to separate lidar from other organization operations.*

Work Completed: (as reported February 2016)

- Built new and interconnected budget and accounting structures to track and monitor detailed financial information:
 - Established new budget and accounting structure to track individual lidar projects.
 - Designed a new grant and project structure to allow more detailed revenue and expenditure tracking for Geological Survey & Services (GS&S) program projects.
 - Created a new accounting structure to capture all Mineral Land Regulation and Reclamation (MLRR) program revenue by source.
 - Established new separate MLRR program appropriation.
 - Established a new and separate Reclamation Guarantee Fund to track surety bonds in the MLRR program, in accordance with HB 3563 (2015).

Work in Progress: Action item No. 1 complete.

Future Action: Maintain on-going integrity of financial structure and systems put in place.

Action Item 2: *Address the agency's antiquated accounting systems and procedures and implement modern practices.*

This work was critical to establish adequate revenue and expenditure tracking, monitoring and reporting, as well as cash management practices that were a significant factor in the agency's budget uncertainty.

Work Completed:

- **NEW:** Developed written policies and procedures for cash management, accounts payable and receivable, federal financial reporting, and federal revenue draws.
 - **NEW:** Requested and received Secretary of State (SOS) financial audit – completed October 2016. DOGAMI's response to SOS audit recommendations follow:
 - **SOS Recommendation:** *Continue to track federal expenditures by grant and project numbers in accordance with state policy to improve the accuracy of information reported on the department's SEFA.*
 - **Status:** Complete. All revenue and expenditure contracts are currently assigned a unique identifier for accurate tracking. Revenue contracts are also assigned a unique grant and project number including phase numbers appropriately and according to any amendments or modifications of the contract. All grants are established in the statewide accounting system with the Catalogue of Federal Domestic Award (CFDA) number if federal or federal as other funds, and non-federal grants are established with the default 99.999 CFDA number for distinction and accurate SEFA reporting.
 - **Ongoing Action:** DOGAMI will continue to track expenditures as recommended.
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- **SOS Recommendation:** *Develop and implement formal controls over payroll expenditures (review of payroll reports, etc.).*
 - **Status:** In Progress. The agency transitioned from paper timesheets to the DAS "e-payroll" system in early 2016. With this electronic system, employees enter their time using unique project-assigned coding and the supervising manager reviews and "locks" the timesheet electronically. The agency's new organizational structure, effective January 1, 2017, will provide additional oversight and review of project work codes.
 - **Ongoing Action:** Training on payroll review, and policies and process will be developed by December 31, 2016 [Item completed] and maintained on an ongoing basis.
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- **SOS Recommendation:** *Continue to develop a filing system that will facilitate record retention and retrieval.*
- **Status:** Complete. A contract filing system has been developed and captured as a written process to ensure consistency. The system includes designation of contracts as federal or non-federal for quick differentiation and internal organization of contracts with standard sections of:
 - Contract/Agreement
 - Invoices/Draws
 - Reports
 - Sub or partner agreements
 - Correspondence
- **Ongoing Action:** DOGAMI will continue to follow the filing system that has been developed.

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- **NEW:** Federal Emergency Management Agency (FEMA) audit – completed October 2016. The review encompassed eight FEMA grants managed by DOGAMI. No audit findings were reported by FEMA.
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Reported February 2016:

- Surety bond reconciliation at 99 percent completion.
- Contracted with DAS Shared Financial Services, which provided additional oversight and standardized accounts payable and receivable procedures.
- Implemented standard practice for invoice approval.
- Established an automated process within the statewide accounting system to track and monitor outstanding invoices for cash management purposes.
- Analyzed labor cost coding for tracking, monitoring and reporting purposes.
- Implemented consistent project identification in GS&S program and cost codes.
- Implemented consistent contract file organization.

Work in Progress: Action item complete, except remaining one percent of surety bond task.

Future Action: Pursuit of residual funds that may belong in the separate Mined Lands Reclamation Guarantee Fund. This effort has been hampered due to inadequate past record keeping and the loss of knowledge from staff turnover.

Action Item 3: *Review the agency's current business and organization infrastructure.*

The DAS review team found that insufficient financial and contracts management expertise was a significant factor in the agency's budget uncertainty. The immediate need identified by agency management was to establish the needed expertise through position changes. Increasing project staff understanding of new financial structures and practices was also a priority.

Work Completed:

- **NEW:** To create opportunities to gain hands-on, direct leadership and management/supervisory experience and build long-term capacity within DOGAMI, organizational changes were implemented effective January 2017. Leveraging currently filled positions, DOGAMI's organizational structure was modified to include a Deputy Director (2-year rotation); a GS&S Manager (2-year rotation); two GS&S Supervisors (1-year rotations); two lead positions in the MLRR program; and a Chief Information Officer (currently limited duration; proposed as permanent). Leadership/management training and mentoring is ongoing. See appendix for current organization chart.

Reported February 2016:

- Established an executive-level finance position, reporting directly to the State Geologist/Executive Director, to provide the expert financial oversight necessary for successful management of the Agency's funding portfolio. A financial analyst position also now reports directly to the executive-level finance position in order to provide additional support for financial operations.
- Improved financial oversight and management of GS&S program projects via:
 - Development of a new process for proposing projects that includes management approval at key decision points in order to ensure the agency has the financial and organizational capacity to take on new projects.
 - Education of program staff regarding costs codes, financial reporting, project management, and budgeting to increase understanding of financial practices—resulting in better integrated oversight of project finances.
 - Implementation of Legislative approvals for new federal grant applications.

Work in Progress: Creation of written policies and procedures for project management is ongoing, which combined with formal training will broaden institutional knowledge of financial practices and standard reports. This will help clearly define the roles, understanding, and responsibilities of management and project staff in developing and overseeing projects.

Future Action: Leadership development is underway to ensure organizational changes are fully

implemented and supported by the agency's business operation practices. DOGAMI is committed to development of leadership knowledge, skills, and abilities at the staff, supervisory, and management level to help ensure that a culture of stewardship and accountability pervades DOGAMI into the future. Expanded institutional knowledge and leadership capacity will facilitate continuity of operations in times of change.

Action Item 4: *Review the agency's core operations, program priorities, and funding sources.***Work Completed:**

- **NEW:** Requested and received Secretary of State (SOS) financial audit – completed October 2106. DOGAMI’s response to SOS recommendations follow:
 - **SOS Recommendation:** *Continue to formalize policies and procedures for recording and reporting federal revenues and expenditures, which should include written procedures for determining whether federal program costs are allowable.*
 - **Status:** In Progress. Anticipated approval date of November 10, 2016 [Item completed] for federal and non-federal written financial policies and procedures to include:
 - Releasing Reclamation Security – Cash Security (FIN 2016-01)
 - Releasing Reclamation Security – Non-Cash Closure and Transfer (FIN 2016-02)
 - Deposits – Mineral Land Regulation and Reclamation (FIN 2016-03)
 - Deposits – Geologic Survey and Services (FIN 2016-04)
 - Accounts Payable (FIN 2016-05)
 - Federal Draw – ASAP.gov (FIN 2016-06)
 - Federal Draw – FEMA PARS (FIN 2016-07)
 - Legislature Approval for Federal Grant Application (FIN 2016-08)
 - DOGAMI-specific processes that align with DAS policies and procedures have been adopted for Travel, SPOTS, and Accounts Receivable.
 - **Ongoing Action:** Written policy and procedures are in progress for indirect allocations [Item completed], complaint procedures, conflict of interest [Item completed], e-payroll review and approval, and allowable costs.
- **NEW:** Additional written financial policies and procedures:
 - Financial Updates – (FIN 2016-09)
 - Grant Application – (FIN 2016-10)
 - Conflict of Interest – (COI 2017-01)

Work in Progress: To help ensure the agency's long-term financial and operational relevance and stability, the agency is proposing an update to its Key Performance Measures (KPMs) for the 2017-2019 Budget. Proposed changes are intended to ensure KPM outcomes can be directly influenced by DOGAMI’s actions, have sustainable funding, and contribute to achieving

the goals and objectives of its 2015-2021 Strategic Framework and the Governor's long-term focus areas. Working within the Strategic Framework, the agency will also be developing specific near-term priority initiatives in order to make measureable progress on its strategic objectives.

Future Action: The GS&S business model relies heavily on outside funding sources which primarily reflect the priorities of its funding partners which are not necessarily fully aligned with GS&S priorities. Availability of relevant external funding that is outside the agency's control makes revenue forecasting difficult, especially given current funding uncertainty at the federal level.

Once higher priority action items are sufficiently accomplished to free up agency capacity, DOGAMI will begin a transparent process that includes Oregon communities, other state agencies, customers, and stakeholders to analyze the GS&S program business model. DOGAMI has already initiated a similar internal comprehensive assessment of the MLRR program.

Analysis will include review of the services delivered by the GS&S and MLRR programs and how those services are funded, identification of priorities for existing services, gaps in service, examination of how services are delivered, alternatives for delivering services, and options for effectively providing services in the long-term.

Action Item 5: *Review of the agency's cash flow and application of indirect rates that fund some administrative functions.*

Work Completed:

- **NEW:** Requested and received Secretary of State (SOS) financial audit – completed October 2106. DOGAMI's response to SOS recommendations follow:
 - **SOS Recommendation:** *Continue efforts to eliminate the practice of advancing federal monies prior to incurring expenditures for reimbursable grants.*
 - **Status:** Complete. This practice has been eliminated. Federal monies are currently being drawn according to actual costs within the grant at the time of draw and according to backup documentation. No 'pending' costs are drawn until actual charge is recorded in the statewide accounting system.
 - **Ongoing Action:** DOGAMI will continue to draw funds for actual costs as recommended.
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- **SOS Recommendation:** *Implement controls to ensure indirect costs are recorded accurately and timely in the state's accounting system.*
 - **Status:** Complete. The system for indirect costs being recorded into the state accounting system accurately has been established. Indirects are up to date and recorded into the state accounting system monthly.
 - **Ongoing Action:** DOGAMI will continue to implement controls as recommended and write a policy and procedure for indirect costs by December 31, 2016. [Item completed]

Reported February 2016:

The DAS review identified untimely revenue capture, which in turn created a cash flow issue for the GS&S program as a primary factor in the agency's budget uncertainty. As an immediate step, existing grants and contracts were reviewed for revenue available, including indirect revenue, and funds owed were brought into the agency. An accurate model for forecasting project revenue and expenditures is under development. Work is in progress to establish the written processes and procedures that will ensure timely capture of revenue. [Item completed]

Work is also in progress to establish current and accurate indirect rates. A percentage of revenue from agency funding streams—including grants, contracts and MLRR program fees supports the agency's administrative functions. Review of these indirect rates, updating of the indirect cost rate plan as required by funding agreements, and development of methodology for establishing indirect rates is underway. This work ensures the agency's complex revenue

streams support administrative operations, as well as direct project and program work. [Item completed]

Future Action: Maintain on-going integrity of systems put in place.

Action Item 6: *Review current fee structures and the level of fee revenue necessary to cover program costs within the Mineral Land Regulation & Reclamation Program.*

Initial analysis of MLRR program fees and costs was done in May 2015 to inform development of HB 3563. The bill, which was brought forward by industry, increased mining fees for the first time since 2005. HB 3563 went into effect January 1, 2016 and included an increase in the aggregate base fee and production rate fee; and an increase in application, transfer, and amendment fees.

The legislation also established new requirements for exclusion certificates for aggregate and placer mining operations and associated registration and renewal fees. Rulemaking to implement those requirements will begin in February 2016. [Item completed]

Initial analysis of MLRR program fees and costs was completed before new agency budget structures and reporting tools were in place. The agency is closely tracking fee revenue to ensure program costs are covered. Additionally, HB 3563 did not address oil, gas, and geothermal fees, which remain unchanged since 2005. The agency would like to report back to the Legislature regarding program revenues and costs when the new fee structure has stabilized and updated program cost information is available.

Current Status: The MLRR program fee increase has been insufficient to cover full staffing costs. Currently, three vacancies have been held open due to insufficient revenue affecting program performance. However, since May 2016 the fund balance has increased sufficiently that DOGAMI anticipates filling one Natural Resource Specialist vacancy in the spring of 2017.

Future Action: The MLRR program is currently undergoing an internal comprehensive review to determine optimal operations, funding, and staffing levels.

Action Item – IT: *Information Technology Assessment and Response*

Although not required for this Budget Note update, to provide a more complete picture of DOGAMI's operations and challenges, included below is an update on progress made subsequent to the December 2015 IT Assessment of DOGAMI's information technology budget and operations prepared by Enterprise Technology Solutions on behalf of the Office of the State Chief Information Officer.

Assessment Recommendations: IT Remediation Plan and May 2016 Emergency Board funding:

- Move, where practical, all IT services and hardware out of the makeshift server room in the Portland State Office Building (PSOB) to enterprise shared services in Salem and/or to a purpose-built server room. (Remove the water bucket.)
- Hire a full-time IT administrator and IT staff to run the agency's IT services.
- Bring IT budget and procurement practices in line with state policy and process.
- Develop a sustainable plan for stewardship of the very large lidar data sets DOGAMI owns and shares with numerous local, state, and federal stakeholders.

Work in Progress:

- **Server Migration Status:**
 - Moving servers to a PSOB location that ensures physical security, dedicated environmental controls, and redundant power.
 - Target move date: March/April 2017.
- **IT Administration:**
 - IT Incident Management Policy circulating pending final approval.
 - Agency Disaster Management and Business Continuity Plan in progress.
 - Formalized Help Desk system and service level metrics nearing completion.
- **Budgetary and Procurement:**
 - Baseline budget developed for May 2016 Emergency Board.
 - IT Remediation Plan extends to 2020 and outlines major initiatives.
 - Tracking all IT procurement and purchasing through accounting codes.
 - Coordinating all hardware, software, and professional services procurements through agency's new temporary procurement specialist.

Desired Future State: A modern, financially efficient and streamlined IT operation that is fully compliant with State of Oregon Enterprise IT standards, where the IT staff are primarily tasked with enabling the agency to continue to deliver on its mission and to improve the services that it provides to the public and the State.

Appendix

DOGAMI Organizational Chart (see next page)

2016 Secretary of State Audit <http://sos.oregon.gov/audits/Documents/2016-26.pdf>

DOGAMI Organizational Chart

