

Analysis
Department of Revenue
Comprehensive External Audit Report

Analyst: John Borden

Request: Acknowledge receipt of a report on a 2017 budget note that called for comprehensive external audit.

Analysis: The Legislature in 2017 (SB 5535) provided \$150,000 and the following instruction to the Department of Revenue (DOR):

The Department of Revenue, under the guidance of the Secretary of State Audits Division and based upon the direction of the Joint Committee on Legislative Audits, is directed to contract for a comprehensive external audit of the agency. The Department of Revenue is to submit the audit, and the agency's response, to the Joint Committee on Legislative Audits no later than May 2018.

DOR fully complied with the budget note and contracted with Moss Adams LLP to conduct the comprehensive external audit of the agency. The external audit has independently validated both the findings of the Department of Administrative Services Financial Review, as reported to the Legislature in 2018, as well as various Secretary of State audit findings.

The audit was completed on November 29, 2018, and produced the following ten key findings:

- Detailed financial management policies and procedures are outdated or nonexistent.
- Certain DOR functions rely heavily on manual processes and tasks that would normally be automated by ERP [Enterprise Resource Plan] software, resulting in inefficient workflows.
- There is no formal staff training program to ensure job duties are performed adequately.
- High employee turnover has resulted in an operational backlog and inadequate control structure.
- Evidence of reviews for key account reconciliations (e.g., suspense, cash, etc.) were not available or inadequately documented.
- The budget, procurement, and accounting practices are uncoordinated, resulting in inadequate financial management.
- Management review practices over year-end entries are inconsistent, inadequate, and/or not evident.
- The chart of accounts contains old and unused accounts.
- A policy and procedures manual outlining the general indirect costs allocation objectives and methodology was not available for the [Moss Adams] review. Additionally, the current basis for allocating indirect costs may not be the most appropriate and should be reevaluated.
- Current cost allocation practices differ from budgeting practices and may not fully maximize direct costs identification resulting in potentially inadequate accounting and analysis capabilities.

The audit ranked each finding according to risk and provided recommendations for resolution. DOR's management response accepted all audit findings, and the agency has positively embraced the need to make improvements by being fully engaged in understanding, defining, and seeking solutions to the financial management issues that exist within the agency. DOR is using the audit findings and recommendations to facilitate the agency's move toward best practices in the realm of financial management.

Of note is the ongoing legislative support for improving DOR's financial management practices and capabilities, which include: adding an accounting manager; adding a permanent full-time Accountant 2; adding a permanent full-time Accounting Technician 3; remedying position classification issues for two positions; and adding, on a limited duration basis, two Accountant 4 positions and a Fiscal Analysts 3 position. These resources have allowed DOR to make good progress to address various audit findings and other agency needs.

Legislative Fiscal Office Recommendation: Acknowledge receipt of the report.

Department of Revenue Heath

Request: Report on the findings and recommendations of an external financial audit of the Department of Revenue.

Recommendation: Acknowledge receipt of the report.

Discussion: The Department of Revenue (DOR) is reporting on a recently completed external financial audit undertaken in compliance with the following Budget Note included in Senate Bill 5535 (2017):

Budget Note

The Department of Revenue, under the guidance of the Secretary of State Audits Division, and based upon the direction of the Joint Committee on Legislative Audits, is directed to contract for a comprehensive external audit of the agency. The Department of Revenue is to submit the audit, and the agency's response, to the Joint Committee on Legislative Audits no later than May 2018.

Senate Bill 5535 included \$138,000 General Fund and \$12,000 Other Funds expenditure limitation for the audit contract.

In addition to the resources for the external audit, the Legislature has provided additional resources to DOR to improve its financial management. In 2017, the Legislature provided an Accounting Manager position and an additional Fiscal Analyst 2 position to bolster the Department's financial management resources. In 2018, the Legislature provided two limited duration Accountant 4 positions and one limited duration Fiscal Analyst 3 position to help address the findings of the financial audits and reviews.

Although work remains to implement the recommendations of the Senate Bill 5535 Budget Note audits and reviews, the completion of this audit was one of the last outstanding items from 2017. The Department's work on this audit has been delayed, with the original audit due to be reported to the Joint Committee on Legislative Audits by May 2018. The final audit report was delivered on November 29, 2018. The audit was delayed due to a failed procurement, leadership changes in the DOR Administrative Services Division, and the delayed availability of the selected auditor after the contract was signed.

In response to the failed procurement, DOR worked with the Secretary of State, Legislative Fiscal Office, and Department of Administrative Services - Chief Financial Office (DAS-CFO) to refine the scope of the audit to address the main concerns of the above parties, namely the financial management practices of the Department. These practices had been the subject of concern by the Legislature during the 2017 Session, which had led to a number of Budget Notes, including one directing DOR to work with DAS-CFO to conduct a comprehensive review of the Department's financial management practices. DAS-CFO engaged a team of finance experts from other state agencies to review documents and systems and interview staff. DAS-CFO and the Department reported to the Legislature on this work in February 2018.

The external audit aligns with and builds on the financial review conducted by DAS-CFO. Below is a chart showing the recommendations of each document:

Recommendation	DAS-CFO Review	External Audit
Hire and train financial management staff for key positions	X	X
Document financial processes	X	X
Limit the use of the cost allocation system to indirect expenses only	X	X
Internally coordinate the agency's fiscal impact process	X	
Strengthen quality assurance for external documents	X	
Financial system use and accounting structures could be streamlined	X	X
Coordinate budget, accounting, and procurement processes		X
Reconcile accounts on a timely basis	X	X
Develop consistent year-end accounting procedures		X
Update the chart of accounts to make sure all information can be tracked appropriately		X

As shown above, the DAS-CFO review and the external audit overlapped in their observations and recommendations to a great extent. The DAS-CFO review provided an immediate diagnosis and roadmap for improvement for the development of the Department's 2019-21 budget, while the external audit validated the review team's findings and provided additional recommendations for improvements in agency financial management for the long term.



Oregon

Kate Brown, Governor

Department of Revenue
955 Center St NE
Salem, OR 97301-2555
www.oregon.gov/dor

February 15, 2019

The Honorable Representative Dan Rayfield, Co-Chair
The Honorable Senator Betsy Johnson, Co-Chair
The Honorable Senator Elizabeth Steiner Hayward, Co-Chair
Joint Committee on Ways and Means
900 Court Street NE
H-178 State Capitol
Salem, OR 97301-4048

Dear Co-Chairpersons:

Nature of the Request

The Department of Revenue (DOR) is submitting a report on Financial Management Resources related to the comprehensive external audit of the agency as required by a Budget Note included in Senate Bill 5535 (2017):

“The Department of Revenue, under the guidance of the Secretary of State Audits Division, and based upon the direction of the Joint Committee on Legislative Audits, is directed to contract for a comprehensive external audit of the agency. The Department of Revenue is to submit the audit, and agency response, to the Joint Committee on Legislative Audits by no later than May of 2018.”

The 2017 Legislature recommended approval of Package 804: Financial Management Resources. The package increased General Fund by \$138,000 and Other Fund limitation by \$12,000, on a one-time basis to contract for a comprehensive external audit of the agency.

Agency Action

The DOR entered into a work order contract with Moss Adams LLP (contractor) with a defined scope of work that was found acceptable to representatives of the Secretary of State, the Legislative Fiscal Office, and the office of the Chief Financial Officer at the Department of Administrative Services. The scope of work was as follows:

“The purpose of this audit includes a review of DOR’s current financial management practices with recommendations for process improvements.”

The focus of the audit was to identify opportunities, to implement appropriate actions aimed at reducing risks, strengthening controls, and enhancing performance efficiency and effectiveness. The audit identified many good practices relating to current financial management performance:

“A list of some key good practices observed are as follows:

- New management is pushing for change,
- Operational improvements are already in motion, and
- Some staff are ready for change.”

The process and control improvement opportunities that were identified in the audit primarily relate to:

- 1) “inadequate policies, procedures, and detailed desk manuals;
- 2) staff training opportunities and retention;
- 3) IT application reassessment; and
- 4) the appropriateness of indirect cost allocation practices.”

The audit provides ten recommendations for DOR to focus on. DOR has identified an implementation plan and response for each recommendation in *Appendix A: Implementation Plan*. DOR has also made significant progress on all the recommendations as shown in *Appendix B: Management Responses*.

This budget note has been focused on financial management, however there are two additional audits that have been performed on the finance division in 2017–2019. The first was a budget note from SB 5535 (2017):

“The Department of Revenue, under the Direction of the Department of Administrative Services—Chief Financial Office, is directed to undertake a comprehensive review of the Department of Revenue’s accounting practices and Statewide Financial Management Application structure and its alignment with the Oregon Budget Information Tracking System. This review is to include the Department of Revenue’s cost allocation system. The Department of Revenue and the Department of Administrative Services—Chief Financial Office are to jointly report their findings to the Joint Committee on Ways and Means during the Legislative session in 2018.”

The Department of Revenue and the Department of Administrative Services—Chief Financial Office jointly reported their findings to the Joint Committee on Ways and Means during the Legislative session in 2018. The second audit was conducted in late 2018 by the SOS as their annual CAFR audit which is performed on all state agencies. These audits have given the agency a more comprehensive perspective of areas for potential improvement.

Action Requested

The agency requests that the committee acknowledge receipt of this report.

Joint Committee on Ways and Means

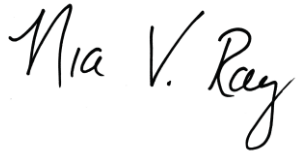
February 15, 2019

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Legislation Affected

No legislation is affected.

Respectfully submitted,

A handwritten signature in black ink that reads "Nia V. Ray". The signature is written in a cursive, flowing style.

Nia Ray, Director

Oregon Department of Revenue



MOSSADAMS

PROPRIETARY AND CONFIDENTIAL

FINAL REPORT

FOR

OREGON DEPARTMENT OF REVENUE

Financial Management Practices Review

November 29, 2018

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805 SW Broadway
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November 29, 2018

Mr. Ralph Amador
Administrator, Chief Financial Officer
Oregon Department of Revenue
955 Center St NE
Salem, OR 97301

Dear Mr. Amador:

Thank you for the opportunity to perform the performance audit relating to the Department of Revenue's (DOR or the Department) current financial management practices. This report summarizes the results of our review.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) as outlined in our Work Order Contract and Price Agreement No. DASPS-2512-15. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and audit results based on our audit objectives. The scope of this engagement is outlined in the body of our report. This report was developed based on information from our review of construction projects and records.

This report is intended solely for the use of the Department of Revenue, and may not be provided to, used, or relied upon by any third parties. Moss Adams LLP does not accept any responsibility to any other party to whom this report may be shown or into whose hands it may come.

We appreciate the opportunity to help you continuously improve your financial management program performance. Please do not hesitate to contact me if you have any questions or need further assistance regarding this important matter.

Sincerely,

Moss Adams LLP
Portland, OR



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I. EXECUTIVE SUMMARY

The purpose of this audit was to review the Oregon Department of Revenue's (DOR or the Department) financial management practices through June 30, 2017 with recommendation for process improvements.

Although the focus of this performance audit was to identify opportunities to implement appropriate actions aimed at reducing risks, strengthening controls, and enhancing performance efficiency and effectiveness, we identified many good practices relating to the financial management performance audit. A list of some key good practices observed are as follows:

- **New management is pushing for change:** DOR's management is developing the necessary personnel and operational structure to support a successful financial management program.
- **Operational improvements are already in motion:** As of the commencement of this performance audit, new management has already started to implement change and operational improvements.
- **Staff are ready for change:** During our interviews, feedback from Department staff indicated an eagerness to adopt new change from previous processes.

The process and control improvement opportunities identified during our risk assessment primarily relate to 1) inadequate policies, procedures, and detailed desk manuals; 2) staff training opportunities and retention; 3) IT application reassessment; and 4) the appropriateness of indirect cost allocation practices.

A. KEY IMPROVEMENT OPPORTUNITIES

The results of our procedures revealed the following opportunities for the Department to improve its financial management practices:

FINANCIAL MANAGEMENT POLICIES AND PROCEDURES

- **Policies and Procedures:** DOR should establish detailed financial management policies and procedures to ensure relevance and appropriateness. Additionally, desk manuals should be developed that include a step-by-step guide and clearly define and document the responsibilities of each role (see Finding No. 1 in the report body).
- **IT Applications:** To mitigate processing inefficiencies and associated risks, DOR should collaborate with the Department's IT development staff to explore the possibilities of new IT applications and/or making better use of the current IT applications (see Finding No. 2 in the report body).
- **Training:** DOR should provide relevant training opportunities (i.e., both internal and external) to employees to support compliance with policies and procedures. Additionally, management should work with staff to develop career plans and set annual goals (see Finding No. 3 in the report body).

INTERNAL CONTROL STRUCTURE

- **Staffing:** High employee turnover has resulted in an operational backlog and an inadequate control structure (see Finding No. 4 in the report body).



- **Suspense and Cash Account Reconciliations:** Department management should ensure all key reconciliations are prepared consistently and reviewed timely. Additionally, efforts should be made to refine the data exchange between the divisions to ensure process efficiency and control activities during reconciliation (see Finding No. 5 in the report body).

BUDGET PROCESS

- **Coordinated Budget and Accounting Process:** Coordination efforts should be made between budgeting, procurement, and accounting teams to ensure consistent accounting and reporting practices (see Finding No. 6 in the report body).

YEAR-END ENTRIES

- **Management Review Practices:** Department management should develop consistent year-end accrual preparation and review procedures to help ensure the accuracy and completeness of year-end financial reporting figures (see Finding No. 7 in the report body).

ACCOUNTING STRUCTURE

- **Chart of Accounts:** As a good practice, DOR management should evaluate the existing chart of accounts and determine whether efficiencies can be created to ensure the overall chart is organized and enables the Department to track all required information for accounting, budgeting, and financial reporting (see Finding No. 8 in the report body).

COST ALLOCATION SYSTEM (CAS)

- **CAS Policies and Procedures:** The Department should develop policies and procedures for indirect cost and allocation. The basis of allocation for indirect charges should be periodically reviewed for appropriateness (see Finding No. 9 in the report body).
- **CAS Allocation Practices:** The Department should reevaluate current indirect cost allocation practices for both budget and accounting departments and ensure consistency to support financial reporting and analysis capabilities. As a best practice, procedures to maximize direct cost identification and allowable indirect charges should be defined and reviewed for appropriateness with state accounting requirements (see Finding No. 10 in the report body).



II. BACKGROUND, OBJECTIVES, SCOPE, AND METHODOLOGY

A. BACKGROUND

DOR administers taxes for state government and provides debt collection services for more than 180 state agencies and local governments. There are two aspects of the revenue collected by DOR: statewide and internal Department funding. The first aspect of the DOR, collecting of taxes and fees on behalf of other state agencies and local governments. The second aspect of DOR's revenue is to fund Department operations through administrative charges for the cost of administering the various taxes and program revenues of the other state agencies.

The 2017-2019 biennial budget reflects legislative efforts to improve the Department's operations in six core areas. The budget authorized contracting with an independent consulting firm to conduct a review of DOR's current financial management practices with recommendations for process improvements.

B. OBJECTIVES, SCOPE, AND METHODOLOGY

DOR engaged Moss Adams to conduct a performance audit of the Department's financial management practices. Moss Adams conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Management remains responsible for the proper implementation and operation of an adequate internal control system. Due to the inherent limitations of any internal control structure, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that the internal control structure may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

The objectives of this performance audit focused on assessing the Department's performance in the following areas through June 30, 2017:

- **Financial management practices, policies, and procedures:** We evaluated the adequacy of adopted policies and procedures and the consistency of current practices with adopted policies and procedures.
- **Control structure, including adequacy to ensure compliance and identify and timely correct noncompliance:** We reviewed the design of key controls deemed important to protect assets and resources and timely process and report financial information.
- **Budget process, including alignment of expenditures with legal authorization to expend funds:** We reviewed the procurement and cost allocation processes to assess whether spending aligns with the legal authorization to expend funds.
- **Accounting entries made at year-end for the last four fiscal years (FY 2014- FY 2017) to reclassify costs to align with budgeted amounts:** We assessed the reasonableness of the number of entries and surrounding processes.



- **Accounting structure used to record transactions and track program costs by budgeted areas;** We reviewed program cost accounts (PCAs) established and used to monitor expenditures by budget areas to determine both whether the structure and use of program account codes and Department object codes are reasonable and whether the structure reflects program expenditures in the appropriate budget category and program.

We conducted an in-depth review of DOR's Cost Allocation System (CAS) with recommendations for improvement. We also reviewed and performed testing on the reasonableness of the Department's practices related to the use of the general fund revolving account.

We compared current practices with industry best practices, including the Oregon Accounting Manual Government Financial Officers Association, and Government Accounting Standards Board. This analysis enabled us to define potential recommendations for each area of focus, as well as major opportunities for improvement, if applicable. At the conclusion of our on-site fieldwork, we held an exit briefing and presented our preliminary draft findings for fact validation and assessment of the practicality of recommendations.

The primary techniques used to conduct the performance audit included:

- **Document Review:** We gathered relevant documentation for review, including organization charts and employee lists, policies and procedures (e.g., Oregon Accounting Manuals and Governmental Accounting Standards, internal controls, budget processes and documents, expenditures, general ledger, chart of accounts, CAS documents, performance metrics, and market data. We reviewed documentation with the objective of gaining a sufficient understanding of DOR's environment, further defining issues and surrounding facts, and gaining insights to prepare for interviews.
- **Interviews:** We conducted confidential one-on-one interviews with DOR management and Financial Services Division (FSD) personnel, including:
 - Internal Audit
 - Administrative Services Division Administrator
 - Budget and Finance Manager
 - Budget and Finance Unit
 - Procurement Manager/DPO
 - Procurement & Contract Specialist
 - Accounting Staff
- **Process Walkthroughs:** We conducted walkthroughs of Finance and Budget operations. We had DOR staff walk us step-by-step through processes associated with core functions being performed.



III. FINDINGS AND RECOMMENDATIONS

A. FINANCIAL MANAGEMENT POLICIES AND PROCEDURES

We evaluated the adequacy of adopted policies and procedures and the consistency of current practices with adopted policies and procedures. We reviewed DOR’s financial management (program, budget, and accounting) policies and procedures to ensure policies and procedures aligned with best practices. Additionally, we solicited feedback from DOR staff to determine if documented policies and procedures effectively communicate DOR’s guidelines and practices. We noted the following opportunities for improvement from our review.

A.1 POLICIES AND PROCEDURES

1	FINDING	Detailed financial management policies and procedures are outdated or nonexistent.
	RECOMMENDATION	DOR should establish detailed financial management policies and procedures to ensure relevance and appropriateness. Additionally, desk manuals should be developed that include a step-by-step guide and clearly define and document the responsibilities of each role.

Finding: Detailed financial management policies and procedures are outdated or nonexistent. We inspected a number of DOR policy and procedural documents related to financial management and noted that many are in excess of 10 years old. For example, the following key policies and procedures were more than 10 years old and appeared to be inconsistent with current procedures:

- Document No. 10.15.00.PO, *Internal Control – Transaction Documentation Requirements* (December 1, 2004)
- Document No. 10.30.00.PO, *Internal Control – Revenues* (July 1, 2001)
- International Technology Group, *Cost Allocation System User Manual* (1997)

RISK RATING
High
Medium
Low

The use of outdated policies and inadequate desk manuals increase the risk of error, non-compliance, and not achieving management’s objectives.

Recommendation: DOR should update its financial management policies and procedures to ensure the continued relevance and effectiveness of management’s policies and procedures. The Department should implement a schedule to reassess policies and procedures at least every two years or upon change in standards or recommended management action. Upon revising, the updated policies should be communicated to employees and training should be provided as necessary.

Additionally, detailed desk manuals as well as roles and responsibilities should be clearly defined and documented. For specific processes which are key to the various accounting cycles (e.g., reconciliations, cost allocation, time entry and allocation, period close procedures, etc.), desk manuals or other procedural documentation should be developed to provide a step-by-step guide for ensuring such processes are performed appropriately and in a timely manner. Employee job descriptions should clearly identify and



define the responsibilities of the specific job, as well as the knowledge and skills needed in order to perform duties successfully.

A.2 IT APPLICATIONS

2	FINDING	Certain DOR functions rely heavily on manual processes and tasks that would normally be automated by ERP software, resulting in inefficient workflows.
	RECOMMENDATION	To mitigate processing inefficiencies and associated risks, DOR should collaborate with the Department’s IT development staff to explore the possibilities of new IT applications and/or making better use of the current IT applications.

Finding: Certain DOR functions rely heavily on manual processes and tasks that would normally be performed by ERP software, resulting in inefficient workflows. The primary cause appeared to be the lack of interface between the IT applications the Department uses, resulting in additional manual reconciliation to ensure data accuracy (e.g., GenTax, CAS, etc.). In other instances, we noted that all the data for a DOR function was maintained manually in a spreadsheet. For example, procurement and contracting staff maintain all issued purchase orders and contracts manually on spreadsheets, as no contract management system exists.

RISK RATING
High
Medium
Low

Inefficiencies and risks associated with not utilizing appropriate IT applications to assist in managing workflows include:

- Additional staff resources spent performing necessary control activities to ensure the validity and accuracy of information
- Increased risk of operating delays due to a slowdown of up-to-date information
- Increased risk of erroneous information

In addition, the utility of the CAS is questionable; staff and management reported that the system is not fully understood by staff and allocation assumptions are not modifiable (or staff are unaware of how to modify them). Furthermore, the system does not have vendor support and is not supported by the Department’s IT team. In addition, the system’s information is not backed-up to ensure data security. As the CAS is currently a critical system for period-end entries, these system deficiencies create inefficiencies and operational risk.

Recommendation: To mitigate processing inefficiencies and risks (e.g., CAS for indirect cost allocation), DOR should collaborate with the Department’s IT development staff to explore the possibilities of new IT applications and/or making better use of the current IT applications. Furthermore, exploring applications used by other State departments (e.g., Health Authorities for indirect cost allocation) may prove as a suitable replacement of current IT applications. A cost-benefit analysis should be done to determine whether further developing the applications outweighs the benefits of purchasing an off-the-shelf product.



For recently adopted applications (e.g., GenTax), explore service packages or other dedicated resources, to help bridge any informational gaps and meet accounting needs in promoting efficient and effective operations.

A.3 TRAINING

3	FINDING	There is no formal training program for staff to ensure job duties are performed adequately.
	RECOMMENDATION	DOR should provide relevant training opportunities (i.e., both internal and external) to employees to support compliance with policies and procedures. Additionally, management should work with staff to develop career plans and set annual goals.

Finding: There is no formal training program for staff to ensure job duties are performed adequately. Employee feedback indicates that training related to system and process changes has been inadequate in ensuring employees are performing their job duties proficiently. Based on our experiences, there is an increased risk of noncompliance with meeting the Department’s expectations due to inadequate policies and procedures, nonexistent detailed desk manuals, and inadequate training to provide employees with a clear understanding of job and operating requirements.

RISK RATING
High
Medium
Low

Recommendation: To mitigate the risk of noncompliance with established policies and procedures, DOR should provide continuing education and training. This issue, combined with outdated or nonexistent policies and procedures (*see Finding No. 1 for further information*) and high staff turnover (*see Finding No. 4 for further information*), has resulted in a gap in understanding process workflows and methodologies, as there is a lack of documentation to provide guidance and much institutional knowledge has left with departing employees. Management should obtain an understanding of the training needs and opportunities within the Department. Additionally, management should work with staff to develop career plans and set annual goals. Clear expectations for performance should be established, and staff should be managed to these expectations.

B. INTERNAL CONTROL STRUCTURE

We reviewed the design of key controls deemed important to protect assets and resources and timely process and report financial information. Our procedures included a review of DOR’s control structure to ensure DOR is complying with the appropriate and applicable financial management policies and procedures. Additionally, we made inquiries with key stakeholders from various business areas, conducted observation and walkthrough of the processes and associated control activities being performed, and tested using sample selection methods. We noted the following opportunities for improvement from our review.



B.1 STAFFING

4	FINDING	High employee turnover has resulted in an operational backlog and an inadequate control structure.
	RECOMMENDATION	DOR should take immediate action to develop and retain its workforce, as well as to improve the overall operating environment.

Finding: High employee turnover has resulted in an operational backlog and an inadequate control structure. Based on inquiry, we noted that many of the manager and staff positions have turned over at least once, and in many cases more than once, during the audit period. For example, at the time of this report, the ASD's CFO, Accounting Manager, and Budget and Payroll Manager had not more than one year of employment with DOR. The cause of the high turnover is linked to a variety of factors, including a lack of stable leadership and employees leaving for other opportunities. As a result, there appeared to be a lack of institutional knowledge from tenured employees who could provide guidance and fill the informational gaps.

RISK RATING
High
Medium
Low

Recommendation: DOR should take immediate action to develop and retain its workforce and to improve the overall operating environment. This multistep approach will take time before DOR can expect to see the results of an improving working environment. Efforts should include the following:

- Develop robust policy and procedural documents which can support process continuity during instances of staff turnover. (*see Finding No. 1*)
- Allocate additional staff resources to ensure the Department is adequately staffed.
- Create a career plan for each team member that can be used to guide and monitor the continuing education for the team. (*see Finding No. 3*)
- Increase process efficiency through automated workflows of IT applications. (*see Finding No. 2*)

Additionally, management should solicit feedback from employees on ways to improve morale and retention. Management should be committed to changing the environment, establishing a clear vision statement and goals for the Department, and executing a comprehensive communication strategy.

B.2 SUSPENSE AND CASH ACCOUNT RECONCILIATIONS

5	FINDING	Evidence of reviews for key account reconciliations (e.g., suspense, cash, etc.) were not available or inadequately documented.
	RECOMMENDATION	Department management should ensure all key reconciliations are prepared consistently and reviewed timely. Additionally, efforts should be made to refine the data exchange between the divisions to ensure process efficiency and control activities during reconciliation.



Finding: Evidence of reviews for key account reconciliations (e.g., suspense, cash, etc.) were not available or inadequately documented. According to management, staff shortages contributed to the delays in completing reconciliations and reviews. This area of risk was also identified and noted in the following audit reports:

RISK RATING
High
Medium
Low

- Office of the Secretary of State, Audit Division, Financial Statement Audit for the year ending June 30, 2017 (2017)
- Oregon Department of Revenue, Internal Audit, Accounting Reconciliation Process Consultation (2018)
- Secretary of State, Audit Division, Statewide Single Audit Report for the fiscal year ending on June 30, 2017 (2018)

Based on the reconciliations of the revenue suspense account at the Treasury to Department subsidiary accounts provided to us through June 30, 2017, consistent preparation and adequate review processes and procedures appeared to still not be in place. Additionally, data entered into GenTax, a revenue and tax processing software, is not reconciled with the banking team’s deposits, resulting in potential errors. The suspense account reconciliations are dependent on inputs from other divisions in DOR. Previous to GenTax, reports produced by the banking team (e.g., cash journals) were used to reconcile payment activity that had been deposited before information had been entered into the system. At the transition to GenTax, no report equivalent had been developed to validate the information entered into the system, resulting in an increased potential for errors as data is not confirmed.

Recommendation: Department management should ensure all key reconciliations are prepared consistently and reviewed timely. The reconciliations should also be reviewed separately and approved in a timely manner to ensure errors can be corrected promptly after the period end. Additionally, efforts should be made to refine the data exchange between the divisions to ensure process efficiency and control activities during reconciliation. We recommend collaborating with the banking team to see if other reports and data could be developed that would be more useful in the reconciliation process

C. BUDGET PROCESS

We performed a review of DOR’s budget process for reasonableness, including an analysis of whether spending aligns with the legal authorization to expend funds. Our procedures included inquires with key stakeholders from various business areas and observation and walkthrough of the processes being performed. We noted the following opportunities for improvement from our review.

C.1 COORDINATED BUDGET AND ACCOUNTING PROCESS

6	FINDING	The budget, procurement, and accounting practices are uncoordinated, resulting in inadequate financial management.
	RECOMMENDATION	Coordination efforts should be made between budgeting, procurement, and accounting teams to ensure consistent accounting and reporting practices.



Finding: The budget, procurement, and accounting practices are uncoordinated, resulting in inadequate financial management. Based on inquiry with DOR management, expenditure and procurement management procedures differed from budget preparation practices. That is, expenditures were allocated and accounted for differently than budget amounts. Additionally, considerations of budget amounts were not evident within procurement processes and procedures. For example, after review of the PO Log and Order Request form, it did not appear that current practices considered authorized budget amounts. Failing to accurately track budget-to-actual data hinders management’s ability to make informed decisions and increases the risk of exceeding budgeted thresholds.

RISK RATING
High
Medium
Low

Recommendation: Coordination efforts should be made between budgeting, procurement, and accounting teams to ensure consistent accounting and reporting practices.

Should material discrepancies between budgeting and accounting occur, create additional tools to ensure consistent, appropriate, and effective financial management.

Management should evaluate current policies and procedures (see *Finding No. 1* for more information), IT applications (see *Finding No. 2* for more information), and staff training opportunities (see *Finding No. 3* for more information) to ensure financial management practices are performed in an efficient manner.

D. YEAR-END ENTRIES

We assessed the reasonableness of the number of entries and surrounding processes. Our procedures included a review of year-end journal entries, inquires with key stakeholders from various business areas, observation and walkthrough of the processes being performed, and testing through sample selection methods. We noted the following opportunities for improvement from our review.

D.1 MANAGEMENT REVIEW PRACTICES

7	FINDING	Management review practices over year-end entries are inconsistent, inadequate, and/or not evident.
	RECOMMENDATION	Department management should develop consistent year-end accrual preparation and review procedures to help ensure the accuracy and completeness of year-end financial reporting figures.

Finding: Management review practices over year-end entries are inconsistent, inadequate, and/or not evident. Management is responsible for ensuring that fiscal year-end closing procedures result in reported Department financial information that conforms with generally accepted accounting principles. We selected a sample of year-end entries for review and noted that the year-end financial procedures do follow a reasonable methodology; however, evidence of management review and approval of adjusted journal entries was missing from 59 of the 80 transactions reviewed.

RISK RATING
High
Medium
Low



Recommendation: Department management should develop consistent year-end accrual preparation and review procedures to help ensure the accuracy and completeness of year-end financial reporting figures. This includes performing control activities such as:

- Preparing reconciliations in a timely manner to ensure the accuracy and validity of year-end figures.
- Ensuring adjusted journal entries for interfund transactions are balanced.
- Ensuring management review of reconciled and adjusted journal entries is performed.

E. ACCOUNTING STRUCTURE

We reviewed PCAs and comp objects established and used to monitor expenditures by budget areas to determine if the structure and use of program account codes and Department object codes are reasonable and whether the structure reflects program expenditures in the appropriate budget category and program. Our procedures included reviewing documentation, inquires with key stakeholders from various business areas, and observation and walkthrough of the processes being performed. We noted the following opportunities for improvement from our review.

E.1 CHART OF ACCOUNTS

8	FINDING	The chart of accounts contains old and unused accounts.
	RECOMMENDATION	DOR management should evaluate the existing chart of accounts and determine whether efficiencies can be created to ensure that the overall chart is organized and enables the Department to track all required information for accounting, budgeting, and financial reporting.

Finding: The chart of accounts contains old and unused accounts. While the accounting structure is comprehensive, the structure may need a “cleanup” to remove any unnecessary, old, or unused accounts. It is best practice to keep chart of accounts relatively simple and high level, and then utilize other system components to further define the details. This lessens the amount of maintenance required for the chart of accounts.

RISK RATING
High
Medium
Low

Recommendation: DOR Management should evaluate the existing chart of accounts and determine whether efficiencies can be created to ensure that the overall chart is organized and enables the Department to track all required information for accounting, budgeting, and financial reporting. Based on our experiences, a collaborative team of budget, accounting, and operations personnel should spearhead this effort to ensure the accounting structure accurately records financial transactions per the vision of management and program requirements.

F. COST ALLOCATION SYSTEM (CAS)

To identify opportunities for improvement, our procedures included an in-depth review of the cost allocation system. In order to perform our review, we inspected key system documentation, performed inquiries with the Accounting Manager, Budget & Payroll Manager, and Accountant IV regarding the CAS



system inputs, outputs, limitations, and frustrations. Additionally, with the assistance of the Accountant IV, we performed a process walkthrough of the CAS system workflow to observe the allocation method that is applied.

F.1 CAS POLICIES AND PROCEDURES

9	FINDING	A policy and procedure manual outlining the general indirect cost allocation objectives and methodology was not available for our review. Additionally, the current basis for allocating indirect cost may not be the most appropriate and should be reevaluated.
	RECOMMENDATION	The Department should develop policies and procedures for indirect cost and allocation. The basis of allocation for indirect charges should be periodically reviewed for appropriateness.

Finding: A policy and procedure manual outlining the general indirect cost allocation objectives and methodology was not available for our review. The Department provided a “CAS Current state paper” dated September 25, 2012, a series of cost allocation studies including a “Project Management Plan,” a “Requirements Report,” and a “Recommendation Report” dated early 2007. However, no policy and procedures, including general Department objectives and methodologies for achieving cost allocation objectives, were evident. All costs incurred under indirect cost code 8000 are allocated using direct program labor hours as a basis; however, this may not be the most appropriate method for all indirect charges (e.g., rent). Additionally, during our walkthrough of the CAS system, we noted that reconciliations, inputs, and outputs are reviewed and spot checked by the individual performing the process; however, no formal management review procedure or sign-off is performed.

RISK RATING
High
Medium
Low

Recommendation: The Department should develop policies and procedures for indirect cost and allocation. At a minimum, these policies and procedures should include:

- A clear definition of indirect cost, appropriate use of indirect costs, and indirect cost categories
- Formal methodology or objective for allocation of indirect cost categories
- Appropriate approvals and reviews to ensure accountability and accuracy

Additionally, the current basis for allocation of indirect cost may not be the most appropriate and should be reevaluated. Current methodology for allocation is consistent and systematic; however, it is not fundamentally driven by cost category or activity, may not use a basis that best measures the relative benefits of the recipient program, and results in complex and difficult to review allocations. If a multiple allocation base method is adopted, the Department should reevaluate the basis of allocation for each cost category (i.e., square footage as opposed to labor hours).



F.2 CAS ALLOCATION PRACTICES

10	FINDING	Current cost allocation practices differ from budgeting practices and may not fully maximize direct cost identification resulting in potentially inadequate accounting and analysis capabilities.
	RECOMMENDATION	The Department should reevaluate current indirect cost allocation practices for both budget and accounting departments and ensure consistency to support financial reporting and analysis capabilities. As a best practice, procedures to maximize direct cost identification and allowable indirect charges should be defined and reviewed for appropriateness with state accounting practices.

Finding: Current cost allocation practices differ from budgeting practices and may not fully maximize direct cost identification resulting in inadequate accounting and analysis capabilities. The Department utilizes a single cost code (8000) to charge all indirect costs to the cost-incurring PCA. The cost code is then allocated on a basis of direct labor hours charged to the program at either the Department, Division, Section, or Unit, depending on the cost incurring program's preset code. Per our inquiries with Department personnel, the indirect cost code 8000 is not consistently applied or reviewed for appropriateness. Due to the current cost allocation methodologies, this results in less direct cost identification and creates a varied and unpredictable cost allocation to Department programs month-to-month.

RISK RATING
High
Medium
Low

Recommendation: The Department should reevaluate current indirect cost allocation practices for both budget and accounting departments and ensure consistency to support financial reporting and analysis capabilities. As a best practice, procedures to maximize direct cost identification and allowable indirect charges should be defined and reviewed for appropriateness with state accounting practices. The Department should also assess whether a multiple allocation base method is appropriate for the indirect costs incurred.



APPENDIX A: IMPLEMENTATION PLAN

IMPLEMENTATION PLAN								
#	Recommendation	Priority	Owner	Schedule (FY18/19)				Resources
				Q1	Q2	Q3	Q4	
1	DOR should establish detailed financial management policies and procedures to ensure relevance and appropriateness. Additionally, desk manuals should be developed that include a step-by-step guide and clearly define and document the responsibilities of each role.	High	DOR Management					Internal
2	To mitigate processing inefficiencies and associated risks, DOR should collaborate with the Department's IT development staff to explore the possibilities of new IT applications and/or making better use of the current IT applications.	High	DOR Management IT Department					Internal
3	DOR should provide relevant training opportunities (i.e., both internal and external) to employees to support compliance with policies and procedures. Additionally, management should work with staff to develop career plans and set annual goals.	High	DOR Management					Internal
4	DOR should take immediate action to develop and retain its workforce, as well as to improve the overall operating environment.	High	DOR Management					Internal
5	Department management should ensure all key reconciliations are prepared consistently and reviewed timely. Additionally, efforts should be made to refine the data exchange between the divisions to ensure process efficiency and control activities during reconciliation.	High	DOR Management					Internal



IMPLEMENTATION PLAN								
#	Recommendation	Priority	Owner	Schedule (FY18/19)				Resources
				Q1	Q2	Q3	Q4	
6	Coordination efforts should be made between budgeting, procurement, and accounting teams to ensure consistent accounting and reporting practices.	High	DOR Management					Internal
7	Department management should develop consistent year-end accrual preparation and review procedures to help ensure the accuracy and completeness of year-end financial reporting figures.	High	DOR Management					Internal
8	As a good practice, DOR management should evaluate the existing chart of accounts and determine whether efficiencies can be created to ensure that the overall chart is organized and enables the Department to track all required information for accounting, budgeting, and financial reporting.	Medium	DOR Management					Internal
9	The Department should develop policies and procedures for indirect cost and allocation. The basis of allocation for indirect charges should be periodically reviewed for appropriateness.	High	DOR Management					Internal
10	The Department should reevaluate current indirect cost allocation practices for both budget and accounting departments and ensure consistency to support financial reporting and analysis capabilities. As a best practice, procedures to maximize direct cost identification and allowable indirect charges should be defined and reviewed for appropriateness with state accounting practices.	High	DOR Management					Internal



APPENDIX B: MANAGEMENT RESPONSES

FINDING NO.	SECTION	RISK RATING	RECOMMENDATIONS	MANAGEMENT RESPONSE
1	Policies and Procedures	High	DOR should establish detailed financial management policies and procedures to ensure relevance and appropriateness. Additionally, desk manuals should be developed that include a step-by-step guide and clearly define and document the responsibilities of each role.	Management accepts the recommendation. Policies and procedures are in the process of being formulated. Through training new staff, procedures are being reviewed for accuracy and appropriateness. Additionally, desk manuals will be developed that include procedures as well as a step-by-step guide. Management has begun to clearly define and document the responsibilities of each role and provide expectations to staff.
2	IT Applications	High	To mitigate processing inefficiencies and associated risks, DOR should collaborate with the Department's IT development staff to explore the possibilities of new IT applications and/or making better use of the current IT applications.	<p>Management accepts the recommendation and agrees with the associated risks. The book of record for the State of Oregon is the Statewide Financial Management Application (SFMA). All accountants are enrolled in training or have completed training for SMFA to ensure understanding of the system. In addition, the Accountants have also been trained in the Department's internal operating system, GenTax.</p> <p>Through training and ongoing analysis of the system, the Accounting Unit continues to identify inefficiencies within GenTax whether they be system enhancements or opportunities for reducing manual work. When a change request is identified, it is submitted to the GenTax Production Support Team and added to a list of service requests for that unit. The Production Support team categorizes the urgency of the request and determines assignment to the developer. Although the Accounting Unit is able to identify a list of the top 10 urgent requests, ultimately they are assigned based on the developer's capacity. The Accounting Unit currently has over 40 requests for enhancements or adjustments to the financial components in GenTax. Each of these requests represents an impact to accuracy of financial reporting, ability to access financial data, accuracy in reconciliation or the elimination of manual work by an Accountant. Furthermore, the Accounting Unit does not have the ability to query information on an ad-hoc basis as needed. Any query or report request that does not already exist within GenTax</p>



FINDING NO.	SECTION	RISK RATING	RECOMMENDATIONS	MANAGEMENT RESPONSE
				<p>must flow through the same path as an enhancement request and is added to the service request list. For example, if the Secretary of State requests information that resides in GenTax that would warrant a query, that request must be sent in to the Production Support team where the developers pull the query and send the result to the Accountants. Ideally, the Accounting team would have ownership of the financial information and have the tools or functions necessary to access data and perform full analysis for their positions. Outside of GenTax, if an Accountant needs to query information from SFMA, they can utilize a query tool – Datamart – and access the information in whatever format is needed.</p> <p>The Department's cost allocation system (CAS) is a critical system. This system lives on an outdated Access platform with methodologies and allocation assumptions that have not been updated. The Department has not designated an IT support initiative nor does the system have vendor support. Going forward the Department has submitted the 19-21 budget structure and the Accounting Unit will be analyzing CAS and updating the accounting structure to match the budget structure. Through this, Accounting will document procedures for a desk manual and coordinate with IT for upgrades to CAS and create a back-up solution to ensure data security.</p>
3	Training	High	DOR should provide relevant training opportunities (i.e., both internal and external) to employees to support compliance with policies and procedures. Additionally, management should work with staff to develop career plans and set annual goals.	Management accepts the recommendation. All accountants have been enrolled in training for the Statewide Financial Management Application, the Department's internal GenTax application, any and all statewide user group update seminars as well as other training as available (ex: GASB training updates). As stated previously, policies and procedures are being developed and documented to assist with training and support going forward. Management is working with staff to develop career plans and deliver annual performance reviews which include goals and opportunities.



FINDING NO.	SECTION	RISK RATING	RECOMMENDATIONS	MANAGEMENT RESPONSE
4	Staffing	High	DOR should take immediate action to develop and retain its workforce, as well as to improve the overall operating environment.	Management accepts the recommendation. The Department has filled the vacant positions in Accounting as well as in the leadership. The staffing includes well rounded candidates with strengths matching the needs of the unit including a Certified Public Accountant, a cost allocation accountant and the promotion of an accountant with extensive institutional knowledge. Going forward, the Finance leadership team has a clear and cohesive vision which has been presented to staff. Management is working to rebuild institutional knowledge to fill information gaps while also training on systems and processes. Creating procedures, offering training and creating career plans are all steps being taken to develop a strong Finance workforce.
5	Suspense and Cash Account Reconciliations	High	Department management should ensure all key reconciliations are prepared consistently and reviewed timely. Additionally, efforts should be made to refine the data exchange between the divisions to ensure process efficiency and control activities during reconciliation.	Management accepts the recommendation. The Department has filled the vacant positions which will help to alleviate the operational backlog. Accountants have made great strides in completing key cash reconciliations and formulating procedures through the process. In addition, priority has been placed on cross training and information sharing to strengthen knowledge across the team. Role assignments and review expectations have been set and staff are being trained to complete assignments appropriately. Reconciliation tracking sheets have been updated to monitor completion and review is done timely.
6	Coordinated Budget and Accounting Process	High	Coordination efforts should be made between budgeting, procurement, and accounting teams to ensure consistent accounting and reporting practices.	Management accepts the recommendation. Finance leadership is working toward an integrated process starting with aligning budget and accounting structures. Progress is being made to create an appropriate and timely way to track other fund revenues. We plan to improve through training and staff development. After basic elements are in place, we plan to make continued improvements in future biennium.



FINDING NO.	SECTION	RISK RATING	RECOMMENDATIONS	MANAGEMENT RESPONSE
7	Management Review Practices	High	Department management should develop consistent year-end accrual preparation and review procedures to help ensure the accuracy and completeness of year-end financial reporting figures.	Management accepts the recommendation. The Department filled the vacant positions and through the year-end process, procedures were reviewed and revised as new staff were trained. With a full staff, appropriate internal controls for preparation and review processes can be adhered to ensure accuracy and completeness. Leadership will review reconciled and adjusted journal entries.
8	Chart of Accounts	Medium	As a good practice, DOR management should evaluate the existing chart of accounts and determine whether efficiencies can be created to ensure that the overall chart is organized and enables the Department to track all required information for accounting, budgeting, and financial reporting.	Management accepts the recommendation. The Department has submitted the 19-21 budget structure and the Accounting Unit will be analyzing CAS and updating the accounting structure to match the budget structure. Through this process a collaborative team of budget, accounting and management will evaluate the existing chart of accounts and remove any unnecessary, old or unused accounts.
9	CAS Policies and Procedures	High	The Department should develop policies and procedures for indirect cost and allocation. The basis of allocation for indirect charges should be periodically reviewed for appropriateness.	Management accepts the recommendation. The accounting unit will be updating the accounting structure to align with budget and reevaluate the cost allocation system. Through this process the Department will clearly define indirect cost, appropriate use of indirect cost and identify indirect cost categories. Documentation of assumptions, procedures and methodologies will take place through the process. Internal controls will be placed to ensure accountability and accuracy through appropriate approvals and reviews.
10	CAS Allocation Practices	High	The Department should reevaluate current indirect cost allocation practices for both budget and accounting departments and ensure consistency to support financial reporting and analysis capabilities. As a best practice, procedures to maximize direct cost identification and allowable indirect charges should be defined and reviewed for appropriateness.	Management accepts the recommendation. The accounting unit will be updating the accounting structure to align with budget and reevaluate indirect cost allocation practices. The Department will be reviewing the current basis for allocation of indirect cost to ensure it is appropriate and consistent.

