



JACKSON COUNTY

Oregon

Internal Audit Report

Audit of Surveyor Corner Restoration Funds

FUNDS ARE CURRENTLY BEING USED APPROPRIATELY, ALTHOUGH APPROPRIATE USE IN THE PAST COULD NOT BE CONFIRMED; NONETHELESS, INTERNAL CONTROLS COULD BE IMPROVED TO HELP ENSURE CORRECT USE IN THE FUTURE

April 1, 2013

Presented to the
Jackson County Board of Commissioners
by the
Internal Audit Program

Audit Team

Eric Spivak, County Auditor
Tanya Baize, Senior Auditor
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To: Board of Commissioners
From: Eric Spivak, County Auditor *ES*
Subject: Surveyor Audit
Date: April 1, 2013

This report presents the results of an internal audit concerning the County Surveyor's Office. The objective of our audit was to determine if Corner Restoration Funds were used in accordance with ORS 203.148 *Public Land Corner Preservation Fund*, and if the current County Surveyor has properly designed and implemented internal controls that reasonably ensure that the funds will be used appropriately. The audit was added to the fiscal year 2012-13 Annual Internal Audit Plan after Surveyor staff reported concerns that the Surveyor Cornerstone Preservation funds may have been used inappropriately under direction of the prior County Surveyor.

The report findings were reviewed with the Audit Committee, as well as County Surveyor Scott Fein who took office in January 2013.

The Internal Audit Program appreciates the cooperation and assistance received from Surveyor personnel throughout the course of the audit.

C: Audit Committee
Mass Adams, LLP
Scott Fein, County Surveyor

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CHAPTER 1 INTRODUCTION AND BACKGROUND

Audit Authority

We conducted our audit in accordance with Codified Ordinance 218 pertaining to the County Auditor. Our audit was added to the Fiscal Year 2012-13 Internal Audit Plan after Surveyor staff reported concerns that the Surveyor Cornerstone Preservation funds may have been used inappropriately under direction of the prior County Surveyor.

Background

The Surveyor's total budget for fiscal year 2012-13 is \$1,354,324 and consists of two programs, the Surveyor Program and the Corner Restoration Program¹. The Surveyor had 5 full-time-equivalent (FTE) positions budgeted for fiscal year 2012-13; however, the County Surveyor position became vacant in July 2012, and a staff member in a Land Surveyor III position was subsequently elected County Surveyor and took office in January 2013. The new County Surveyor plans to refill the Land Surveyor III position in March 2013. A Land Surveyor II position was cut January 31, 2013, and an Administrative Secretary position was cut February 28, 2013 due to budget constraints. The Surveyor's office will have a total of 3 FTE after the Land Surveyor III position is refilled.

The Surveyor Program reviews all maps of survey and property divisions for Jackson County to ascertain that they accurately present all of the information required by Oregon Revised Statute. Once maps have been submitted, they are filed in the official County records, indexed in a protected environment, and made accessible to the public. The Surveyor Program is self supporting through fees and document sales. The downturn in construction over the last few years has resulted in reduced need for surveyor services making self sufficiency a challenge.

The Corner Restoration Program monitors and maintains all public land corners within Jackson County. The nearly 20,000 corners in Jackson County were established in the 1800's. As further development and population growth take place, the preservation of these corners becomes increasingly essential to maintaining and documenting the accurate boundaries of all local properties. Revenue for the Corner Restoration Program is generated by a fee assessed to documents recorded in the Clerk's Office. Per ORS 203.148 *Public Land Corner Preservation Fund; fees for recording*, these fees are only to be used in the establishment, reestablishment and maintenance of government corners. The fund has developed a substantial reserve, and there has been some concern that these funds may have been used to subsidize the Surveyor Program.

¹ Surveyor Program 2012-13 budget is \$72,196 and the Corner Restoration Program 2012-13 budget is \$1,282,128

Audit Objective The objective of our audit was to determine if Corner Restoration Funds were used in accordance with ORS 203.148 *Public Land Corner Preservation Fund*, and if the current County Surveyor has properly designed and implemented internal controls that reasonably ensure that the funds will be used appropriately.

Audit Scope and Methodology Our audit included examining Surveyor and Corner Restoration Program actual expenditures for fiscal year 2008-09 through 2011-12, and budgeted expenditures for fiscal year 2012-13.

Our audit procedures included:

- Reviewing Oregon Revised Statute 203.148 *Public Land Corner Preservation Fund*;
- Reviewing best practices for allocating costs;
- Reviewing job descriptions for Surveyor office staff;
- Reviewing cost allocation between the Surveyor and Corner Restoration Programs; and
- Other procedures as determined appropriate.

Audit Criteria Criteria represent the laws, regulations, contracts, grant agreements, standards, measures, expected performance, defined business practices and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation. Criteria for our audit consisted of Oregon Revised Statute 203.148 and best business practices for cost allocation.

Internal Controls Internal controls, sometimes referred to as management controls, include the plan, policies, methods, and procedures adopted by management to meet its missions, goals, and objectives. Internal controls also include the processes for planning, organizing, directing, and controlling program operations and the systems for measuring, reporting, and monitoring program performance. Internal controls serve as a defense in safeguarding assets and in preventing and detecting errors, fraud, violations of laws, regulations, and provisions of contracts and grant agreements or abuse.

We gained an understanding of internal controls through discussions with Surveyor office staff and the current County Surveyor.

Compliance with Government Auditing Standards We conducted this performance audit in accordance with generally accepted government auditing standards. These 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.

Confidential or Sensitive Information No information was omitted from the report because it was considered confidential or sensitive in nature.

CHAPTER 2 **Appropriate Uses and Control of Corner Restoration Funds**

There is limited guidance on appropriate use of Corner Restoration funds

Oregon Revised Statute (ORS) 203.148 *Public Land Corner Preservation Fund* states that these moneys shall be used only to pay expenses incurred and authorized by the county surveyor in the establishment, reestablishment and maintenance of corners of government surveys. The ORS is silent regarding payment of indirect costs from the Public Land Corner Preservation Fund, although generally the total costs of a program is comprised of the allowable direct costs of the program, plus its allocable portion of allowable indirect costs. Indirect costs are those costs incurred for a common or joint purpose benefiting more than one cost objective (e.g. program). Costs should be allocated between the two Programs based on a cause-and-effect relationship. If one program causes more costs due to greater usage of a resource, then it should be allocated a larger share of the cost. Indirect costs are generally pooled, and then allocated to objectives using an appropriate allocation method, such as direct hours, number of transactions processed, etc. When allocating costs using direct hours, detailed employee time records are necessary to support the allocation.

Personnel Costs

In the past, Surveyor staff have not tracked time spent on corner restoration or other surveying duties, making it difficult to confirm that staff time was charged to the Corner Restoration Program appropriately; however, staff are now tracking their time so future use of Corner Restoration funds will be more transparent.

Surveyor staff duties can be divided into four broad categories:

- 1) Map review, etc. performed for the general public;
- 2) Surveying duties performed for other County departments;
- 3) Corner preservation duties; and
- 4) Administrative and supervisory duties.

Staff time spent working with the general public or other County departments should be charged to the Surveyor program, while time spent on corner preservation should be charged to the Corner Restoration Program. The indirect administrative/supervisory duties should be allocated between the two Programs based on the Program's direct staff hours. However, it does not appear that staff time was tracked very closely between the two Programs prior to fiscal year 2012-13². According to the current County Surveyor, staff time was budgeted in a Program, or split between the Programs based on estimates made by the prior County Surveyor. The graph and tables that follow show how staff time was

² Prior to fiscal year 2009-10 the Surveyor used only one program, and corner restoration costs were tracked with a project code.

charged to the Surveyor and Corner Restoration Programs for fiscal years 2008-09 through 2012-13 as of January 2013.

Graph 1: Total Pay for the Corner Restoration and Surveyor Programs by Fiscal Year

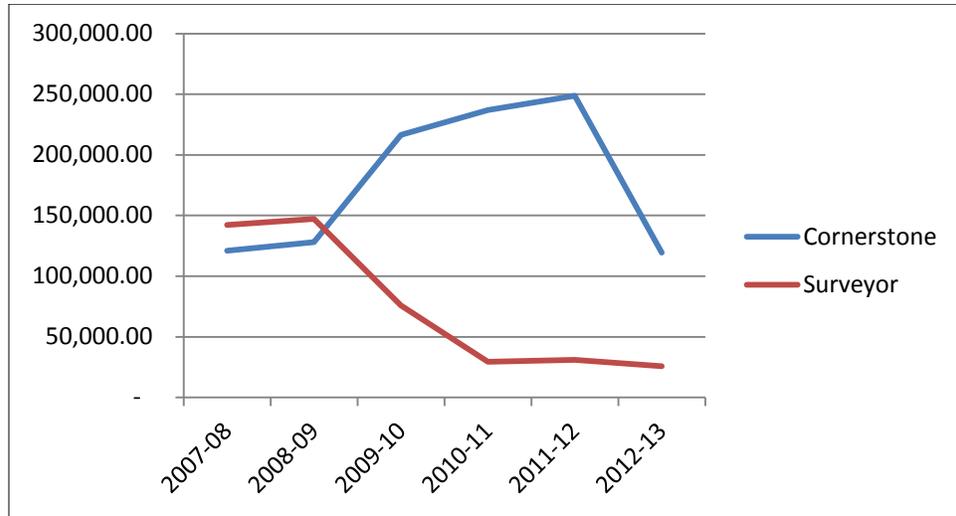


Table 1: Budgeted Percent Labor Distribution between the Corner Restoration and Surveyor Programs by Position and Fiscal Year

Position	2008-09		2009-10		2010-11		2011-12		2012-13	
	Corner	Surveyor								
County Surveyor	33%	67%	54%	46%	90%	10%	90%	10%	83%	17%
Land Surveyor III	33%	67%	65%	35%	100%		100%		88%	12%
Land Surveyor III		100%	99%	1%	100%		100%			
Land Surveyor II	100%		99%	1%	100%		100%		99%	1%
Survey Tech I	100%		99%	1%						
Admin Secretary	33%	67%	43%	57%	50%	50%	50%	50%	54%	46%

Table 2: Non-Administrative/Supervisory FTE Performing Corner Restoration and Surveyor Duties

Fiscal Year	Corner FTE	Surveyor FTE	Total FTE	% Corner FTE
2008-09	2.33	1.67	4	58%
2009-10	3.62	.38	4	90%
2010-11	3	0	3	100%
2011-12	3	0	3	100%
2012-13	1.87	.13	2*	93%

*1 FTE as of February 2013

For fiscal year 2008-09 approximately 2.33 of the 4 non-administrative/supervisory FTE (58%) were budgeted to perform corner work, so it would appear that up to

58% of the administrative/supervisory time could be charged to the Corner Restoration Program as an indirect cost, although only 33% of the Administrative Secretary's and prior County Surveyor's time was actually charged there. The Surveyor Program revenue is not restricted, so it is not inappropriate to charge additional time to the Surveyor Program.

Beginning in fiscal year 2008-09, the revenue from reviewing and filing maps and document sales was greatly impacted by the downturn in economic conditions. The table that follows shows Surveyor Program Fees and Other Service charges for fiscal year 2005-06 through 2011-12.

Table3: Surveyor Program Fees and Other Service Charges by Fiscal Year

Surveyor Program	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Fees & Other Service Charges	\$206,553	\$204,840	\$170,861	\$89,780	\$77,049	\$61,189	\$86,768

The Surveyor's office resources were subsequently redirected to focus on corner restoration work. In fiscal year 2009-10, 3.62 FTE or 90% of the non-administrative/supervisory FTE was budgeted to perform corner work, while only 43% of the Administrative Secretary's time and 54% of the County Surveyor's time was charged to the Corner Restoration Program.

The lack of actual time data made it difficult to determine if changes in FTE allocation was appropriate

In fiscal year 2011-12 and 2012-13, 100% of the non-administrative/supervisor time was budgeted to perform corner work. Revenue for the period shows that map review and filing work was also performed, causing the auditors to question if Corner Restoration funds were used to cover staff costs associated with performing Surveyor Program duties. Even though 10% of the County Surveyor's time was budgeted in the Surveyor Program, staff time was not tracked, so it is difficult to determine who did the work, or if 10% of the County Surveyor's time was an appropriate amount of time to charge to the Surveyor Program for the map review and filing work performed.

When the County Surveyor position became vacant in July 2012, a Land Surveyor III staff member served as Deputy County Surveyor until being formally elected County Surveyor in January 2013. The Deputy County Surveyor began having the staff track and charge direct time to the Surveyor and Corner Restoration Programs as appropriate. However, even though the Deputy County Surveyor intended to allocate his time manually between the two Programs, the appropriate override code was inadvertently not used to override the budgeted allocation of time. For the period of July 31 through October 16, 2012, 126 hours or approximately \$6,954 in salary and benefits was unintentionally charged to the Corner Restoration Program rather than the Surveyor Program. This is 1.7% of the Corner Restoration Personnel Services budget for fiscal year 2012-13. While this does not appear to be significant, an accurate accounting of direct hours in each of the Programs cannot currently be reviewed or analyzed through standard reports. The override code is now being used correctly.

Materials & Services

Prior to fiscal year 2010-11 there was no formal plan used to allocate Materials & Services expense between the Surveyor and Corner Restoration Programs, making it difficult to determine if funds were used appropriately; however, the current plan is adequately documented, and allocation appears to be reasonable and fairly consistent for fiscal years 2010-11 and 2011-12, with a few minor errors noted.

Allocation of Materials & Services appears reasonable for FY 2010-11 and thereafter

The plan to allocate costs between the Surveyor and Corner Restoration Programs should be reasonable, consistently applied over time, and documented. In fiscal year 2009-10 the Finance Director reviewed financial reporting for the Surveyor fund, and made recommendations for allocation of costs between the Surveyor and Corner Restoration Programs³. This plan was followed fairly closely for fiscal years 2010-11 and 2011-12, except that due to lack of oversight, some of the chargebacks and final chargeback adjustments were not allocated according to the plan. In addition, a few other immaterial allocation errors were noted.

Prior to the Finance Director’s review, there was no documentation on how *Materials & Services* were to be allocated, and variation made it difficult to determine if costs were appropriately allocated between the two Programs. The table below shows allocation of selected costs between the Surveyor and Corner Restoration Programs for fiscal years 2008-09 through 2011-12.

Table 4: Allocation of Select Materials & Services Expenses between Surveyor and Corner Restoration Programs by Fiscal Year

Account	2008-09		2009-10		2010-11		2011-12	
	Surveyor	Corner	Surveyor	Corner	Surveyor	Corner	Surveyor	Corner
Motor Pool	12%	88%	20%	80%	2%	98%	2%	98%
Record Storage	0%	100%	50%	50%	100%	0%	100%	0%
Membership & Dues	46%	54%	6%	94%	10%	90%	10%	90%

In general, the allocation of *Materials & Services* for fiscal year 2010-11 and thereafter appears reasonable. The current County Surveyor is reviewing the allocation plan and making adjustments as necessary for fiscal year 2012-13. Most adjustments will be due to changes in allocation of staff time between the two Programs.

Interest Income

Adequate procedures have not been developed to ensure that interest is allocated appropriately, and all of the Surveyor’s fund interest was credited to the Surveyor Program for fiscal year 2010-11 and 2011-12, rather than being allocated between the Surveyor and Corner Restoration Programs based on fund balance. However,

³ The Finance Director also recommended using a separate program to account for corner restoration activities. Prior to this time the Surveyor used one program and a project code to track corner restoration costs.

it does not appear that the portion of Corner Restoration Program interest income has been used inappropriately.

The Treasurer allocates interest earnings to each fund monthly based on the average fund balance. The interest for the Surveyor Fund is credited to the Surveyor Program; however, the interest should be further allocated between the Surveyor and Corner Restoration Programs based on their respective fund balances. This allocation should happen at least annually. Historically the Corner Restoration Program has had a considerably larger fund balance, and should therefore earn a larger share of the interest.

The interest must be manually allocated between the Surveyor and Corner Restoration Programs, but this has not been happening on a consistent basis, and procedures have not been developed to ensure that the allocation is processed in a timely manner. In fiscal year 2010, when the Finance Director reviewed financial reporting for the Surveyor fund, interest allocation between the Surveyor and Corner Restoration Programs was corrected for fiscal year 2001-02 through 2009-10. Interest has not been allocated to the Corner Restoration Program since that time.

Interest income has not been allocated based on fund balance, although it does not appear that it has been spent inappropriately

The concern was that interest that should have been credited to the Corner Restoration Program may have been used to pay for expenses associated with Surveyor Program activities. However, revenue exceeded the Surveyor Program expenses by at least the amount of the interest income for both years reviewed. Assuming that interest income is spent last, it would not appear that Corner Restoration Program interest income was used inappropriately. The Surveyor Program received a one-time General Fund transfer of \$220,000 in fiscal year 2010-11. If the transfer had not been received, the Surveyor Program would have been overspent, and Corner Restoration interest would likely have been spent on surveyor activities.

If interest is not allocated appropriately there is a risk that it may be used to subsidize Surveyor Program activities. The table below shows the actual and estimated corrected interest income for the Surveyor and Corner Restoration Programs for fiscal years 2010-11 and 2011-12.

Table 5: Surveyor and Corner Restoration Program Actual and Estimated Corrected Interest Allocation for Fiscal Years 2010-11 and 2011-12

Program	2010-11 Interest		2011-12 Interest	
	Actual	Corrected	Actual	Corrected
Surveyor	\$21,863	(\$585 ⁴)	\$17,224	\$1,601
Cornerstone	0	\$22,448	0	\$15,623

⁴ Interest is allocated on average fund balance. For fiscal year 2010-11 the beginning fund balance was (146,726), causing the interest allocation to be negative.

CHAPTER 3 **AUDIT RECOMMENDATIONS**

To improve the accuracy of financial reporting and enhance internal controls over Corner Restoration funds, the County Surveyor should:

1. Continue to track direct staff time spent on corner restoration work until sufficient data is obtained to set a reasonable basis for allocating FTE between the Surveyor and Corner Restoration Programs. Periodically review the time allocation as necessary, so that direct and indirect costs will continue to be allocated appropriately.
2. Consider having Payroll staff correct the direct hours inadvertently charged according to the budgeted time allocation rather than the desired manual allocation. The corrected data will aid in setting a reasonable allocation basis for the future.
3. Continue to follow the Finance Directors suggestions for allocating *Materials & Services* costs between the Surveyor and Corner Restoration Programs, and document any changes that are needed to enhance transparency.
4. Allocate final chargeback adjustments in accordance with the allocation plan so that final costs will be accurate and reliable.
5. Consider working with Finance staff to correct the interest allocation between the Surveyor and Corner Restoration Programs for fiscal years 2010-11 and 2011-12 so that the balances will be accurate and reliable.
6. Consider having the County Treasurer credit the Surveyor fund interest income to the Corner Restoration Program since this program earns the majority of the interest, and discuss with Finance staff the possibility of having them allocate an appropriate amount of interest back the Surveyor Program at least annually.

MANAGEMENT RESPONSE



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To: Eric Spivak
From: Scott Fein *Scotts*
Subject: Audit of Surveyor Corner Restoration Funds
Date: March 20, 2013

This memo is in response to the Audit of Surveyor Corner Restoration Funds completed this month which reviewed the use and proper management by the County Surveyors Office of the revenue received through the Public Land Corner Preservation Fund.

The audit of the Surveyor Corner Restoration Funds made several recommendations to improve the accuracy of financial reporting and mechanisms to enhance internal controls over Corner Restoration Funds. As County Surveyor, I am in direct agreement with the audit's findings and will implement the necessary recommendations. Additionally this report provides some valuable and essential guidelines above and beyond those outlined in the Oregon Revised Statutes that relate to Corner Restoration Funds. I sincerely thank the Audit Division for your thorough review and assistance in the management of these funds.