

<b>OREGON ACCOUNTING MANUAL</b>	
<b>SUBJECT:</b> Internal Control	<b>Number:</b> 10.40.00
<b>DIVISION:</b> Chief Financial Office	<b>Effective date:</b> June 1, 2012
<b>Chapter:</b> Internal Control	
<b>Part:</b> Expenditures	
<b>Section:</b>	
<b>APPROVED:</b> George Naughton, Chief Financial Officer	Signature on file

**PURPOSE:** This policy sets [accountability](#) standards for [agency heads](#) and employees with delegated commitment and expenditure authority. It defines accountability for all employees within a given risk environment. Oregon statutes give agency heads the responsibility for approving the use of state resources for commitments, [expenditures](#), and disbursements of their agency.

**AUTHORITY:**

ORS 98.352	ORS 293.455
ORS 291.015	ORS 293.460
ORS 291.990	ORS 293.475
ORS 293.275	ORS 293.480
ORS 293.295	ORS 293.485
ORS 293.306	ORS 293.490
ORS 293.330	ORS 293.495
ORS 293.375	ORS 293.590
ORS 293.450	

**APPLICABILITY:** This policy applies to all state agencies included in the state’s annual financial statements, except for those agencies specifically exempted by OAM Policy 01.05.00.

**POLICY:**

**Employee Responsibility**

101. An agency head is authorized to make expenditure decisions by statute and legislative appropriation. If the agency head delegates [expenditure decision authority](#) to subordinates, it must be in writing. Any person who exercises expenditure decision authority will be legally responsible and accountable for the expenditure. The agency head or approving officer can be held responsible or accountable for another’s expenditure, especially when he or she knows the expenditure is unlawful or contrary to agency policy. The person exercising expenditure decision authority directs another person to make a purchase or incur an expenditure. The person following this direction will not be held responsible or accountable for the expenditure unless the person being directed clearly knows the expenditure is unlawful.
102. Each employee authorized to make an expenditure decision involving [state funds](#) is responsible for the "good judgment" and "lawfulness" of the expenditure. He or she must ensure that the transaction is for authorized purposes and is a responsible and appropriate use

of the funds. A negligent or fraudulent expenditure can result in personal financial responsibility and disciplinary action up to and including dismissal.

103. The following four criteria must be met for payment of a claim against money in the State Treasury:
  - a. The agency that incurred the obligation or made the expenditure must possess an approval document signed by an approving officer.
  - b. Provision for payment of the claim must be by law and appropriation.
  - c. The obligation or expenditure on which the claim is based must be authorized by law.
  - d. The claim otherwise satisfies requirements as provided by law.
104. The agency head should initiate and complete appropriate corrective action when subordinates violate policy. He or she should maintain appropriate documentation supporting delegated authority, approved payments, and corrective actions.
105. The controller or chief financial officer may assist the agency head in monitoring compliance with the agency's accountability policy. Periodic reviews of agency expenditures by the agency head help to assure appropriateness. Agency management should ensure that adequate internal management controls exist to give reasonable assurance of compliance.

### **Fiscal Office Responsibility**

106. Accounting office personnel without delegated expenditure decision authority or any pre-audit responsibility are responsible for the accuracy of their actions in processing claims based upon the information available to them. Claim processors should exercise reasonable care in performing the duties assigned to them. Likewise, employees who execute payment documents do not have expenditure decision authority unless specifically designated.

### **Penalties for Inappropriate Action**

107. Consideration of risk, materiality, and required effort are key elements in management's evaluation of necessary controls. While waste and abuse must be controlled and eliminated, the controls must serve a good business purpose and be cost beneficial.
108. Although unusual, there are occasional cases of employee dishonesty. Any suspected dishonesty case will be handled according to **ORS Chapter 278** and Department of Administrative Services Risk Management policy. Additional information is available on the Risk Management website at <http://www.oregon.gov/DAS/Risk/pages/index.aspx> .
109. Inappropriate actions by people authorized to expend state funds may result in penalties. In some cases, there could be denial of the state's insurance protection for employees when purchases were not for appropriate purposes. The following are typical consequences relating to different levels of inappropriate expenditures:
  - a. A simple error is an unintentional action that was thought at the time to be proper but discovered later to be inappropriate. There is no penalty for a simple error as long as it is not part of a pattern of simple errors. Such a pattern may move the action to the negligence category.

- b. Negligence is failure to act reasonably under existing circumstances. An employee may incur disciplinary action for expenditures that are negligent or contrary to state or agency policy.
  - c. Gross negligence is wanton or reckless disregard of one's duty of due care. The penalty for gross negligence may include personal financial responsibility and disciplinary action up to and including dismissal.
  - d. Fraud is intentional material misrepresentation or omission when there is a duty to disclose a loss or unlawful diversion of public funds. Theft is intentional diversion of state property to personal use. The penalties for fraud and theft may include personal liability; disciplinary action up to and including dismissal; and criminal sanctions.
110. In addition to the sanctions described in the preceding section, the state may refer instances of abuse that violate other statutes to the appropriate law enforcement authority. These referrals may include, but are not limited to, criminal prosecutions for theft (**ORS 164.015 - 164.125**) or abuse of public office (**ORS 162.415**) and proceedings for violations of the Oregon Ethics in Government Act (**ORS chapter 244**).
111. The Code of Ethics for state employees (**ORS 244.040**) provides that no employee can gain personally from his or her employment. Courts have declared that public office is a trust for the benefit of the public that the government serves. It is the duty of all public officers and employees to exercise good judgment and common sense in obligating and expending the resources of the state. Each employee must take responsibility for the wise use of state resources.

## **PROCEDURE:**

### **Standard Payment Process**

112. The State Treasurer pays on demand all sums authorized by law if there are appropriate and sufficient funds in the Treasury to make the payment; pays all warrants drawn on the Treasury in the order in which the warrants are presented out of the appropriate fund; and pays no amount out of the Treasury except when allowed by law.

### **Expenditure Authority, Responsibility, and Accountability**

113. Each agency head must document the delegation of expenditure decision authority to specific individuals. He or she must ensure policies and procedures are in place and that they are consistent with this policy and describe the required documentation, the approval process, the penalty or correction process and criteria, and any delegated responsibility. Required documentation must be maintained for audit purposes. For agencies using electronic approvals, the delegation listing must be kept current to document the authorizations made. (Forms for establishing signature authority are available from the State Treasury at <http://www.oregon.gov/treasury/Divisions/Finance/StateAgencies/Pages/Cash-Management-Forms.aspx>.)
114. **Payment documents** used to authorize expenditures include invoices, entitlements, awards and grants, grant disbursement requests, vouchers, check requests, insurance claims, **purchase orders**, contract release orders, travel claims, personnel actions for payroll transactions, and other similar forms. When an approving officer with sufficient delegated authority approves these or similar documents, claim processors make the payment in a timely

way consistent with good cash management practices. Claim processors can rely on the approval as the only necessary authorization to make payment if so directed by agency policy.

115. Employees independent of the claims and payables process should review claim payments internally for accuracy and appropriateness.

### **Evaluation of Commitment or Obligation**

116. Careful review of any expenditure, encumbrance, or obligation by the approving officer includes asking appropriate questions. These evaluations are not required of the controller or chief accounting officer unless so delegated by the agency head. The following questions are examples and are not all-inclusive. They are recommended for approving officers because of their potential liability.
  - a. Is this a legal obligation for the state to incur? Does it comply with statute and policy?
  - b. Is this obligation a responsible and appropriate use of these funds for this agency and for the state as a whole?
  - c. Did the agency receive the goods or services at full value as requested?
  - d. Are there adequate budget resources available now to allow us to incur this obligation?
  - e. Will this obligation or expenditure pass the "public perception" test? That is, would I be comfortable if I saw this transaction written up on the front page of the local newspaper?
  - f. Am I willing to approve this obligation knowing that I am fully responsible?

### **Authorization of Obligation**

117. Contracts, purchases, invoices, grants and expenditure claims are approved by an approving officer who authorizes the state obligation. If in doubt about the appropriateness of an expenditure, the approving officer could consider documenting his or her rationale and the reasonable business purpose of the expenditure.
118. The signature or electronic approval of the approving officer means that adequate funds are available with existing budgetary authority, that this is an appropriate and authorized expenditure of state resources, that personal financial liability could be assessed if later determined to be an inappropriate expenditure of state funds, and the person authorizing the expenditure is authorized to make it. The following are specific meanings for certain approvals:
  - a. State Purchase Order or Contract Release Order. Approval means the items purchased are authorized by or comply with the Department of Administrative Services' policies and procedures and that provision for payment is by law and appropriation to cover this purchase. In addition, approval means this purchase is allowed by statute and is a responsible and appropriate use of these funds.
  - b. Invoices and credit card charges. Approval means the materials, services, or other expenses covered by the claim have been furnished, rendered, or expended on behalf of the state. Approval means the provision for payment is by law and appropriation, the obligation or expenditure is authorized by law, and the claim satisfies the requirements as provided by section 103 above. The claim has been approved for payment in a specific amount.

- c. Travel Claims. After the traveler certifies the accuracy and appropriateness of the claim, the approving officer should approve the claim. A commissioner, board member, or other approving authority in an agency will approve the agency head's travel claims. The approval signature means that expenses claimed are valid and authorized "duty required" expenses, the expenses comply with current travel policies and **ORS 292.220**, and that provision for payment is by law and appropriation.
  - d. Payroll Actions and Personnel Action Forms. Approval means the person named on the form is an employee of the state in a permanent or temporary position authorized by the legislatively approved budget, that provision for payment is by law and appropriation to pay the salary and benefits indicated, and that the approval signature is that of the designated appointing authority.
  - e. Entitlements, Awards, and Grants. Approval means that the "grantee" meets the criteria for the award, that provision for payment of the award is by law and appropriation, and that the current disbursement complies with the provisions of the grant or contract and any related federal requirements.
  - f. Other Claims. Approval means the expenditure is legally authorized and is a responsible and appropriate use of the funds, provision for payment is by law and appropriation, and the approval is by an authorized employee of the state.
119. Documentation must show that an agency has received proper value, as defined by agency management, and has complied with **ORS 293.295** before a voucher is authorized for payment. This may consist of evidence that (a) goods or services have been received; (b) items delivered were as specified; (c) prices, terms, and extensions shown on the vendor's invoices are correct. Agencies should pay vouchers by the due dates to take advantage of maximum discounts.
120. An optimum standard of control over the processing of payments for purchases of goods or services, benefit or similar payments, and refunds would provide a three-way match of documents. The match may include the following with each item originating from a separate, unrelated work unit.
- a. The authorization or payment request is sent to the disbursement unit.
  - b. Receipt of goods or services or eligibility for payment is sent to the disbursement unit.
  - c. Incoming invoices, if applicable, are delivered directly to the disbursement unit.
  - d. The disbursement unit proofs invoice amounts, matches all related documents, and prepares a voucher or check for the appropriate payment.
121. The state pays overdue account charges incurred by state agencies that do not promptly pay for goods and services provided by private businesses. Claims are considered "overdue" if a check or warrant is 45 days from the date the agency received the invoice, or the date of the initial billing statement if no invoice is received, or the date the claim is certain by agreement of the parties or by operation of law. Overdue account charges will not exceed 8-percent per annum and are to be paid against an agency's appropriation or limitation.

### **Expiration of Warrants and Checks**

122. All warrants and checks issued by state agencies will include in at least 8-point type this statement, "VOID AFTER 2 YEARS FROM DATE OF ISSUE." Checks and warrants that are

computer-generated may use a computer printed statement; all other checks will require the statement to be typed or stamped.

123. Annually between October 1 and November 1, SFMS Operations will prepare a list of all unpaid warrants issued for a period of more than two years prior to July 1 of the year the list is prepared. Agencies due diligence responsibilities include making at least one attempt to find the vendor no later than 90 days prior to October 1 for all warrants \$100 or more. Agencies may not charge the vendor for the search and must keep records of their attempt for three years. All warrants appearing on the list will be expired in R\*STARS.
124. Annually, between October 1 and November 1, each agency that maintains a checking account will prepare from its records, and certify to the Department of State Lands, a list of all checks that are outstanding and not paid by the State Treasurer for a period of more than two years prior to July 1 of the year the list is prepared.
125. After October 1 of each year, the State Treasurer may refuse payment of the outstanding checks on the lists of checks and warrants more than two years old. Statewide Financial Management Services (SFMS) staff will debit general fund cash and credit deposit liability for the amount of the expired General Fund warrants. SFMS will instruct transfer of all other amounts related to unrepresented warrants to the Department of State Lands for deposit in the Unclaimed Property Revolving Fund within the Common School Fund Account. Agencies will instruct transfer of all other amounts related to unrepresented checks to the Department of State Lands. The lawful owner of any check or warrant expired after two years may file a claim with the Department of State Lands. If the Department of State Lands is satisfied that an unpaid check or warrant is for a valid claim, the state will pay the check or warrant and charge the originating fund.

### **Duplicate Instruments**

126. No warrant or check will be paid until such warrant or check, or duplicate thereof, is surrendered to the State Treasurer. A duplicate warrant or check may be issued if the lawful owner furnishes a notarized affidavit that satisfies the payment officer that the original instrument was lost, stolen, or destroyed. Any agency that receives a request to issue a duplicate Department of Administrative Services warrant should send a request for Stop Payment of the original warrant to SFMS Operations. Once the agency has received a notarized affidavit from the lawful owner, the agency may issue a replacement warrant to the claimant.
127. The issuing agency must search for the original instrument out of the paid instruments returned to the agency from the State Treasurer. Copies of truncated R\*STARS redeemed warrants may be obtained by contacting the Cash Management Section of the State Treasury. Refer to <http://www.oregon.gov/treasury/Divisions/Finance/StateAgencies/Pages/Cash-Management-Forms.aspx>. If the original instrument is found, a copy of both sides will be furnished to the person applying for a duplicate instrument. If the applicant determines beyond any doubt that the endorsement is a forgery, he or she must submit an affidavit of forgery. The agency returns the original instrument or authentic reproduction immediately to the State Treasurer who will promptly return the instrument to the presenting or payor bank for credit. The State Treasurer will not be liable for his or her inability to obtain credit from the presenting or payor bank for an instrument returned without credit.
128. Each agency that lawfully issues checks upon the State Treasurer must have a procedure of issuing duplicate instruments. Agencies may adopt the uniform procedure of issuing and delivering duplicate instruments to people entitled to replacement of lost, stolen, or destroyed instruments.

129. If an instrument is paid in an unauthorized manner, the wrongful payment will not relieve the agency issuing the instrument from liability to the true and lawful owner. The person making the wrongful payment and the sureties on his or her official bond, if any, must pay the full amount of the loss.

### **Death of Payee**

130. If the payee of a warrant or check drawn on the State Treasurer dies after issuance of the instrument without receiving payment and the payee's estate is not probated, the authorized survivor(s) of the payee may obtain payment after completing the following two actions:
- a. Surrender the instrument to the State Treasurer with endorsement in the name of the payee and of herself or himself, or themselves as survivor(s); and
  - b. File with the instrument an affidavit to the effect that the affiant(s) is (are) the survivor(s) of the person entitled to the proceeds of the instrument.

Payment will be made to the survivors as prescribed by **ORS 293.490** and **293.495**.