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Secretary of State

State of Oregon

**Oregon Economic Development Department**

**WOOD PRODUCTS COMPETITIVENESS  
CORPORATION, INC.**



**Audits Division**

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CORPORATION, INC.**



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Secretary of State

Audits Division

*Auditing for a Better Oregon*

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The Wood Products Competitiveness Corporation, Inc. (WPCC, Inc.) receives both state lottery and federal grant funds through the Oregon Economic Development Department to provide services to the secondary wood products industry. This report encompasses a review of specific issues related to the WPCC Inc.'s reported grant activity for the fiscal year ending June 30, 1996.

Based on external concerns received about the funding it pays to WPCC, Inc., the department requested that we perform an audit. The issues centered around alterations to timesheets, overcharging administrative expenses to grants, and management practices related to contracting and other association activities.

The objectives of our audit were to (1) investigate the specific concerns received about WPCC, Inc., and (2) determine if expenses submitted for grant reimbursement were adequately supported and allowable under grant covenants and other appropriate laws, rules and regulations.

We conducted our audit in accordance with generally accepted government auditing standards. In this regard, we interviewed relevant state and WPCC, Inc. personnel, as well as other interested parties. We reviewed the grant contracts and analyzed pertinent records maintained by WPCC, Inc. and the department. We also reviewed work performed by WPCC, Inc.'s external auditors. We limited our audit procedures to those we considered necessary in the circumstances.

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We identified questioned costs totaling \$15,302, and recommend that the department review these matters with WPCC, Inc. and take steps to recover those payments which are determined unallowable or inappropriate.

Our audit also revealed that WPCC, Inc.'s revenues, net income, and cash have steadily decreased since fiscal year ending June 30, 1994, and WPCC, Inc. remains highly dependent on grant funds in order to maintain operations. During our audit, we documented a total of \$12,431 in bonuses paid to the executive director and other employees from June 1995 through July 1996. We do not question the use of bonuses as a means of compensation; however, we do question the payment of bonuses while revenues decline and WPCC, Inc. continues its heavy reliance upon federal and state grants to remain in operation.

#### OREGON AUDITS DIVISION

Sam Cochran  
Acting State Auditor

Fieldwork Completion Date:  
January 15, 1997

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## SUMMARY

A review of the Wood Products Competitiveness Corporation, Inc.'s (WPCC) audited financial statements shows a steady decrease in revenue, net income, and cash since the fiscal year ending June 30, 1994. Without "start-up" lottery funds in fiscal year 1996, WPCC would have needed to cut expenses significantly or increase other revenue sources to remain solvent.

As of June 30, 1996, WPCC's programs and activities were far from being self-funded as intended. Of the revenue in this year's audited financial statements, approximately 70 percent came from federal and state grants. While some percentage of state and federal grants may be necessary for WPCC's program development, the 70 percent direct government funding appears high, given WPCC's anticipation of becoming a self-funded entity. Although membership dues could help ease the need for grant funding, they have not yet provided a substantial amount of support for the organization's activities. Membership dues, which totaled \$39,830, accounted for only 7 percent of fiscal year 1996 revenue.

WPCC has increased the number of member companies to 104 as of August 1996; however, membership is only 52 percent of WPCC's original goal of 200 member companies by June 1994. WPCC estimates that as many as 800 companies operate in Oregon's secondary wood products industry.

Even though WPCC's audited financial statements have shown a steady decrease in net income since the fiscal year ending June 30, 1994, and WPCC continues its heavy reliance upon federal and state grants, WPCC's Board's Executive Committee paid a total of \$12,431 in bonuses from June 1995 through July 1996. Included in these bonuses was a \$5,000 bonus paid to WPCC's executive director for WPCC having attained 100 member companies. This bonus, while provided for in the executive director's fiscal year 1996 compensation agreement, appears inconsistent with originally established membership goals, given that only 52 percent of the 1994 goal had been achieved two years later.

We do not question the use of bonuses as a means of compensation; however, we do question the payment of bonuses during a time when WPCC's audited financial statements have shown a steady decrease in net income while continuing its heavy reliance on federal and state grants to remain in operation.

A grant contract between WPCC and the Oregon Economic Development Department (OEDD) provided WPCC with lottery funds to update its 1992 business plan. WPCC completed the plan six months after the required deadline. According to OEDD staff, WPCC completed the plan after staff met directly with WPCC's board to discuss its status. A more timely completion of the business plan might have assisted WPCC management in becoming a self-funded entity.

Our review of WPCC identified several questionable costs. Hours reported by employees on timesheets were sometimes shifted by the executive director from general and administrative (overhead) categories to program categories eligible for grant reimbursement. From September 1, 1995 through March 31, 1996, timesheet revisions moved 65.5 hours totaling \$1,558 in personal services expenses to grant categories. Of the hours moved, 36.75 hours totaling \$832 appear to have been appropriately charged to the Made In Oregon grant; however, it is unclear whether the hours charged were moved to the appropriate Made In Oregon project. Advertising costs totaling \$710 for recruiting a marketing manager appear inappropriately allocated to the Made In Oregon USA Promotion project. Charged breakfast expenses totaling \$1,448 designed to create networking opportunities appear inappropriate for grant reimbursement. In addition, we question \$7,750 of inadequately documented grant expenses and \$3,836 of project expenses that appear inappropriately shifted to the Made In Oregon USA Promotion project.

The depletion of “startup” lottery funds may have acted as an incentive for WPCC’s executive director to classify costs as grant-related, and seek reimbursement from grant projects providing more government funding and requiring less of WPCC’s resources. In addition, the grant contract for the Made In Oregon USA program between WPCC and the OEDD may have contributed to the apparent shifting of costs to the more highly government funded Made In Oregon USA Promotion project. This grant contract did not include clear criteria and guidance for grant reimbursement under the specified budget categories, and relied heavily upon staff judgment. OEDD obtained documentation from WPCC prior to making reimbursement from grant funds; however, some expenses were approved for reimbursement without adequate evidence that they were grant-related.

# INTRODUCTION

## BACKGROUND

Based on external concerns received about the Wood Products Competitiveness Corporation, Inc. (WPCC), the Oregon Economic Development Department (OEDD) requested the Oregon Audits Division perform an audit of grant payments made to the corporation.

### Creation of WPCC

In July 1991, the Oregon Legislative Assembly created the Oregon Wood Products Competitiveness Corporation, a public corporation with a wide-ranging mission to improve and promote competitiveness of the secondary wood products sector. The state appropriated \$2.25 million in lottery funds to fund the activities and administration of the OWPCC. The OWPCC was composed of a board of seven members appointed by the governor, each of whom was to actively engage in the direct management and operation of a secondary wood products firm. Until an Executive Director and staff were employed, the OEDD provided staffing to OWPCC.

The initiating legislation identified a number of activities that the OWPCC was to perform. These included cooperation with other public and private agencies connected with the wood products industry, development of information services about and for the industry, promotional activities, encouragement and support of specific industry associations, encouragement of inter-company cooperation and networking, stimulation of manufacturing modernization and technology applications, research and development, improvement of access to financial capital, and the development of a voucher system for direct services to companies.

During the public corporation's first year, the first issue of concern was the new organization's legal status. As soon as the legislation was enacted, the state Attorney General ruled that OWPCC was not, as had been intended, an independent publicly-funded, private non-profit organization, but a commission governed by the rules of the state. As a result, the board began the process of crafting new legislation which would effectively "privatize" OWPCC.

## **Privatization**

In June 1993, OWPCC entered into a contract, as authorized by the Legislative Assembly, with a newly-created private industry association known as Wood Products Competitiveness Corporation, Inc. (WPCC). In July 1993, OWPCC was effectively privatized by the Legislative Assembly and the assets of OWPCC, the public corporation, were transferred to the private industry association.

WPCC is still required to submit biennial reports to the Joint Legislative Committee on Trade and Economic Development regarding its operation, costs, and results.

## **Funding Sources**

When WPCC took over OWPCC's operations in June 1993, the approximately \$1.3 million remaining of the original \$2.25 million appropriation was given to WPCC through the OEDD. The appropriated funds were to be used for specific activities to support secondary wood products manufacturers in Oregon. Priority activities were organized into program areas dealing with industry communication and cooperation, access to capital, market development, and development of a dependable source of raw materials. Strategies and goals to generate revenue were to be developed for each program area. In addition to the \$1.3 million initial "start-up" funds, the OEDD provides state and federal funds to WPCC through specific contracts for services to the secondary wood products industry. "Made In Oregon," the primary grant to WPCC through the Rural Development Fund, consists of the following funding sources and programs:

### **MADE IN OREGON, USA \$147,000**

This grant, awarded in May 1995, includes \$122,000 of U.S. Forest Service Old Growth Diversification funds and \$25,000 of state lottery funds. The grant was to be used to develop a total-market program for industries manufacturing secondary wood products under the name of "Made In Oregon USA." All projects under this award were to be completed by September 30, 1996, a date which was amended October 14, 1996, to be completed February 28, 1997. According to OEDD, as of October 17, 1996, a total of \$128,875 had been disbursed to WPCC as reimbursement, leaving a pending balance of \$18,125.

**Made In Oregon USA Promotion**

Total project costs were to be \$115,000 with \$80,000 provided from U.S. Forest Service Old Growth Diversification funds.

**Oregon Pavilion**

Total project costs were to be \$117,000 with \$42,000 provided from U.S. Forest Service Old Growth Diversification funds and \$8,000 provided from state lottery funds.

**Buyers/Sellers Conference**

Total project costs were to be \$40,000 with \$7,000 provided from state lottery funds.

**Business Plan Update**

Total project cost of \$10,000 funded entirely by state lottery funds. A draft of the Business Plan was due on or before October 1, 1995, with the final plan due by December 31, 1995. This due date was subsequently extended to April 1, 1996.

**BASIC WOOD PRODUCTS TECHNOLOGY TRAINING COURSE \$80,000**

The OEDD contracted \$80,000 in grant funds, as stipulated by an award from the U.S. Department of Commerce, Economic Development Administration (EDA), to WPCC for the development of a Basic Wood Products Technology Training Course. The grant, executed between WPCC and the OEDD on December 15, 1994, passed through the OEDD. The purpose of the program was to provide displaced, unemployed, or underemployed workers at four target sites in Oregon with basic job skills in the secondary wood products industry. Total project costs were to be \$138,728, with \$80,000 provided from U.S. Department of Commerce, EDA funds. According to OEDD, of the \$80,000 grant award the OEDD authorized reimbursements totaling \$55,368, leaving an unexpended balance of \$24,632.

Each of these grants requires WPCC to provide the specified services and then submit requests for reimbursement to the OEDD. Each grant reimburses the related costs at specified rates, with WPCC or other funding sources paying the remaining costs.

In addition to the grants received directly through OEDD, WPCC has received moneys indirectly from the OEDD's Regional Strategies Fund through a contract with the Oregon Advanced Technology Consortium, Inc. In fiscal year 1996, WPCC received \$45,478 through this contract.

Besides receiving state and federal grants, WPCC generates revenue from membership dues, seminars and training sessions, and its other association activities.

At June 30, 1996, WPCC had five employees in addition to its executive director. According to the association's records, there were 104 member companies as of August 1996.

## **SCOPE AND METHODOLOGY**

The objectives of our audit were to:

- Investigate the specific concerns received about WPCC. These issues centered around alterations to timesheets, overcharging administrative expenses to grants, and management practices related to contracting and other association activities.
- Determine if expenses submitted for grant reimbursement are adequately supported and allowable under grant covenants and other appropriate laws, rules, and regulations.

We conducted this audit in accordance with generally accepted government auditing standards. In this regard, we interviewed relevant state and WPCC personnel as well as other interested parties. We reviewed the grant contracts and analyzed pertinent records maintained by WPCC and OEDD. We also reviewed work performed by WPCC's external auditors. We limited our audit procedures to those we considered necessary in the circumstances.

## AUDIT RESULTS

### FINANCIAL CONDITION

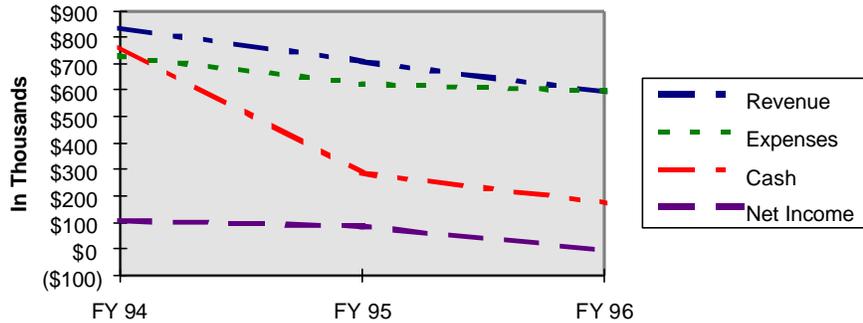
#### Overview

A review of WPCC, Inc.'s (WPCC) audited financial statements shows a steady decrease in revenue, net income, and cash since the fiscal year ending June 30, 1994. In fiscal year 1994, total revenue was \$835,122 and revenues exceeded expenses by \$105,577. For fiscal year 1996, total revenue dropped to \$592,455 and revenues were less than expenses by \$4,726. Likewise, WPCC's cash balance decreased from \$762,793 at June 30, 1994 to \$174,718 at June 30, 1996, a decline of almost \$600,000.

Most of the cash decrease can be explained by the depletion of state lottery funds provided to WPCC to assist in its transition from a state agency to a private, not-for-profit corporation. From the initial \$1.3 million provided at June 1993, \$717,196 was recognized as revenue in fiscal year 1994; \$419,025 in fiscal year 1995; then the final \$195,974 was used in fiscal year 1996. As noted above, revenues were less than expenses by more than \$4,000 in fiscal year 1996. Without these "start-up" lottery funds in fiscal year 1996, WPCC would have needed to cut expenses significantly or increase other revenue sources to survive financially. The available fund balance at June 30, 1995 was about \$219,000; therefore, without the \$195,000 of lottery funds, WPCC would have severely depleted available resources.

While WPCC did decrease total expenses from fiscal year 1994 to fiscal year 1996, total expenses have decreased at a slower rate than total revenues. As shown by fiscal year 1994 and fiscal year 1996 financial statements, total revenues dropped by \$242,677 while total expenses dropped by \$132,364. The following graph depicts the change in total revenue, expenses, cash, and net income over the three-year period since privatization.

Comparison of Fiscal Year Operating Results



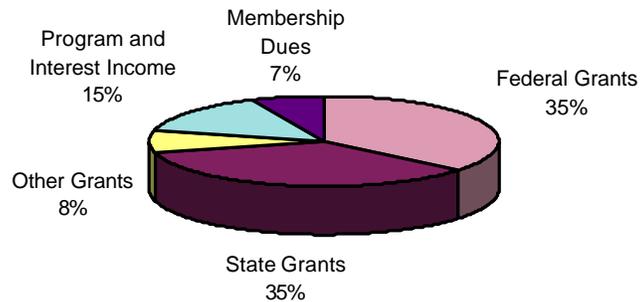
**Reliance on Government Grants**

When OWPCC, WPCC’s predecessor, was created by the Legislative Assembly in 1991, the Legislative Assembly stated its intent that OWPCC find ways to achieve self-financing for its programs and activities. Oregon Laws 1991, Chapter 941, Section 1 (3) states, “It is further the intent of the Legislative Assembly that the corporation seek to find ways in which programs and activities that it established or supports can be made to be self-financing based on the benefits provided to those participating in such programs and activities.” This section of the law remained in effect after OWPCC was privatized by subsequent legislation in July of 1993. Furthermore, the contract entered into in June of 1993 between OWPCC and WPCC is consistent with the Legislative Assembly’s intent. WPCC’s *Statement of Work*, an attachment to the contract, dated June 9, 1993 states, “WPCC anticipates becoming a self-funded entity, relying on revenues from program activities to underwrite operational costs. Each program area will develop clear strategies and goals to generate revenue. Lastly, minutes of a WPCC board meeting held in October 1994 state that ‘revenues should be one-third grants, one-third membership, and one-third seminar and service fees.’”

The grant agreement for the Made In Oregon USA program, the program to which much of this report relates, is further evidence of this intent to be self-funded. This grant was awarded to WPCC by the Oregon Economic Development Department in May 1995. The grant agreement states, “The overall goal of the marketing program is to expand these Phase I activities along with

OEDD staff assistance and guidance over the next year enabling the program to become self-sustaining in Phase II.” The grant agreement required Phase I projects to be completed by September 30, 1996. On October 14, 1996, this completion date was amended to February 28, 1997.

During our audit we found that WPCC’s financial condition remains largely dependent on state and federal grant revenue. Our analysis of financial records as of June 30, 1996 shows that, of the \$592,455 in revenue presented in that year’s audited financial statements, approximately 70 percent came from federal and state grants. While some percentage of state and federal grants may be necessary for WPCC’s program development, the 70-percent-direct government funding appears high, given (1) WPCC’s anticipation of becoming a self-funded entity as stated in WPCC’s *Statement of Work* dated June 9, 1993, and (2) the board’s policy that “revenues should be one-third grants.” Revenue sources for fiscal year 1996 are depicted in the following chart.



A report dated November 29, 1993 was issued by the Corporation for Enterprise Development. This report presented the results of an early assessment of the newly privatized organization and provided insight into the environment that WPCC had entered. In a section titled *WPCC’s Identity Crisis*, the report states, “One of the obvious measures of the extent to which the industry has come to accept WPCC and to value its work is the willingness of companies to fund the organization either through membership dues or through payment for direct services. But time after time the view was expressed [in interviews with members of the secondary wood products

industry and related organizations] that WPCC will not be able to attract such support from the industry? either because it does not appear to be offering practical services to tackle everyday problems, or that it lacks credibility by being a quasi-public agency. It is clear that WPCC will have to work very hard to overcome these perceptions if it is to meet its target of 200 dues-paying members by June 1994.”

Although membership dues could help ease the need for grant funding, they have not yet provided a substantial amount of support for the organization’s activities. As shown above, membership dues, which totaled \$39,830, accounted for only 7 percent of fiscal year 1996 revenue.

Fiscal year 1996 revenue from membership dues was \$29,109 more than that from 1994 and resulted from an increase in the number of members. According to its 1995-96 Annual Report, WPCC had 49 member companies by August 1994, 85 by August 1995 and 104 as of August 1996. The increase in membership is well below WPCC’s original goal of 200 member companies by June 1994. The 104 members as of August 1996 are only 52 percent of the 200 goal. WPCC estimates that as many as 800 companies operate in Oregon’s secondary wood products industry.

### **Salary Bonuses**

Even though WPCC’s audited financial statements have shown a steady decrease in net income since the fiscal year ending June 30, 1994, and WPCC continues its heavy reliance upon federal and state grants, the WPCC’s board’s Executive Committee paid a total of \$12,431 in bonuses from June 1995 through July 1996. Included in these bonuses was a \$5,000 bonus paid to the executive director for WPCC's having attained 100 member companies. This bonus, while provided for in the executive director’s fiscal year 1996 compensation agreement, appears inconsistent with originally established membership goals. In June 1993, when WPCC contracted to perform certain activities to implement OWPCC’s May 1993 business plan, WPCC stated its anticipation of becoming a self-funded entity. In 1996, WPCC continued to be approximately 70 percent funded by state and federal grants. Furthermore, net

income has declined from \$105,577 in fiscal year 1994 to <\$4,726> in fiscal year 1996.

Based on the compensation agreement and minutes of board meetings, it appears that WPCC may have subsequently changed its original anticipation of becoming self-funded as purported in June 1993. We do not question the use of bonuses as a means of compensation; however, we do question the payment of bonuses during a time when WPCC's audited financial statements have shown a steady decrease in net income and while WPCC has continued its heavy reliance on federal and state grants to remain in operation.

### **Delayed Business Plan Update**

The May 1995 grant contract between WPCC and the OEDD provided WPCC with \$10,000 from lottery funds to update its 1992 business plan. The \$10,000 was paid to WPCC in July 1995; the business plan update was due by December 31, 1995. In November 1995, OEDD agreed to extend the business plan due date to April 1, 1996. WPCC did not complete the plan until October 3, 1996, six months after the required deadline. According to OEDD staff, WPCC completed the plan after they met directly with WPCC's board in September 1996 regarding the incomplete plan.

More timely completion of the business plan might have assisted WPCC management in becoming a self-funded entity. Additionally, OEDD paid state lottery funds to WPCC 14 months in advance of the business plan's completion.

### **QUESTIONED COSTS**

Following are the types of costs we identified as questionable grant charges which do not appear to be allowable.

There are several reasons why we questioned these costs. During our audit we found instances in which we believe documentation was inadequate to warrant payment. We also found instances in which total costs were billed to a project when it appeared that only a portion of the cost related to the project billed. All costs questioned were costs treated as direct costs to grant funded projects.

Office of Management and Budget (OMB) Circular A-122, "Cost Principles for Nonprofit Organizations," Attachment A, A.2.g., requires that costs be adequately documented. In addition, OMB Circular A-122, Attachment A, A.4.a., allows a cost to be allocable to a project in accordance with the relative benefits received. Furthermore OMB Circular A-122, Attachment A, B.1., defines direct costs as those that can be identified specifically with a particular project.

We also noted costs moved from non-grant categories to grant-reimbursable categories. We further noted instances in which costs were billed to a project eligible for more grant funds when billing costs to a different project, reimbursable at a lesser rate, may have been more appropriate. OMB Circular A-122, Attachment A, A.4.b., does not allow shifting of costs allocable to a particular cost objective (project) to another.

### **Timesheet Adjustments**

Hours reported by employees on timesheets were sometimes shifted by the executive director from general and administrative (overhead) categories to program categories eligible for grant reimbursement. We reviewed employee timesheets from January 1, 1995 through March 31, 1996. From September 1, 1995 through March 31, 1996, timesheet revisions moved 65.5 hours totaling \$1,558 in personal service expenses to grant categories. Of the hours moved, 36.75 hours totaling \$832 appear to have been appropriately charged to the Made In Oregon grant; however, it is unclear whether the hours charged were moved to the appropriate Made In Oregon project.

The following table lists the employee hours moved into grant-reimbursable categories.

<u>EMPLOYEE</u>	<u>TIME PERIOD</u>	<u>HOURS</u>	<u>CATEGORY</u>	
			<u>FROM</u>	<u>TO</u>
J. Mercer	Nov-95	10	Operations	Business Plan
J. Mercer	Jan-96	4	Operations	Made In Oregon
J. Mercer	Mar-96	36.75	Tech. Seminar	Made In Oregon
D. Brock	Dec-95	5	Operations	Business Plan
D. Brock	Dec-95	6	Communications -- Non-Project	Business Plan
M. Albertini	Oct-95	3.5	Operations	National Institute for Standards and Technology
M. Albertini	Jan-96	.25	Tech. Seminar	Oregon Pavilion
<b>Total hours</b>		<b>65.5</b>		

When asked why he made adjustments to employees' timesheets, WPCC's executive director stated that it was his managerial decision. In contrast, when we questioned why certain costs were not moved from a grant category to a non-grant category, the executive director stated that he relied on the program manager's judgment that the particular item was an appropriate grant-related expense. The executive director further stated that he reviewed the employees' allocation of expenses to non-grant accounts more closely than those charged to grants to ensure that grant reimbursements were maximized and overhead costs held to a minimum.

We noted there was inadequate documentation supporting the changes made to timesheets. Following our request for additional documentation, WPCC provided a signed statement from D. Brock and various memoranda supporting the changes made by the executive director to his timesheets. Because this information was given approximately 14 months after the changes, however, and because the information is inconsistent with an interview of the employee, we still questioned the adjustment of the hours. Furthermore, even if we accepted all documentation provided, the documentation would support the transfer of only eight of the 11 hours moved from non-grant categories to grant categories. Having

employees sign off on changes made when they occur would provide assurance that changes were proper.

In addition, WPCC has provided additional documentation that suggests timesheet changes to J. Mercer's March 1996 timesheet were warranted. It is unclear, however, whether the 36.75 hours should have been charged to the Made In Oregon category or the Oregon Pavilion category. The Made In Oregon category, the category to which the timesheet was changed, had a higher grant-reimbursement rate than the Oregon Pavilion category.

### **Marketing Manager Recruitment**

From May 29, 1996 through June 30, 1996, WPCC advertised for a marketing manager in two newspapers and a trade publication at a cost of \$710. WPCC's quarterly invoices submitted to OEDD included these advertising expenses as charges to the Made In Oregon USA Promotion project (MIO), a component of the Made In Oregon grant. According to its controller, WPCC charged this advertising expense to MIO because the new marketing manager would work solely on MIO projects. However, the prior marketing manager's timesheets indicate that during the period April 1995 through December 1995 the marketing manager spent approximately 28 percent of his time on MIO projects. Therefore, we question the appropriateness of charging the full cost of the marketing manager advertising costs to the MIO grant.

### **Breakfast Meetings**

During the quarter ending June 30, 1996, \$1,448 for costs associated with breakfast meetings was charged to the Oregon Pavilion project within the Made In Oregon grant. This component of the grant is to reimburse expenses associated with WPCC's participation in trade shows. According to a WPCC employee, the primary purpose of the breakfast meetings was to provide industry representatives with an opportunity to network. The Spring 1996 issue of "The Cutting Edge," a newsletter published by WPCC, describes the breakfast meetings in this way: "The meetings are unstructured to allow you time to meet other manufacturers and discuss issues that are important to you." Networking meetings do not

appear related to trade shows and, therefore, do not seem to be allowable charges to the Oregon Pavilion project. OMB Circular A-122, Attachment B, 25.b., allows costs associated with the conduct of meetings and conferences to be charged to grants to the extent that these costs are identifiable with a particular cost objective (project).

**Miscellaneous Questioned Expenses**

Of reimbursement requests for fiscal year 1996 submitted to OEDD, we also question an additional \$11,586 in expenses. These questioned expenses fall into two categories: insufficient documentation and shifted overhead and grant program costs.

We question \$7,750 of grant expenses because available documentation did not adequately support grant reimbursement of the expense. These items are shown in the following table.

**COSTS WITHOUT ADEQUATE DOCUMENTATION**

<u>VENDOR</u>	<u>QUARTER BILLED</u>	<u>AMOUNT</u>
J. Runckel	9/30/95	\$ 900
D. Poppe	9/30/95	\$ 2,400
D. Poppe	9/30/95	\$ 1,900
D. Poppe	12/31/95	\$ 1,750
D. Poppe	3/31/96	\$ 350
D. Poppe	3/31/96	\$ 450
<b>TOTAL</b>		<b>\$7,750.00</b>

The invoice provided OEDD as support for the \$900 payment to Jackie Runckel states that the charge was for “Japan Home Show PR (non-contract) including brochure and application development.” WPCC’s narrative report to OEDD for this quarter states, “WPCC staff developed the Japan Home Show Brochure and the Japan Home Show Application Form and Worksheet. (See Appendices 12 and 13).” The report goes on to state that WPCC engaged an independent consultant to provide promotional and logistical support and referenced a copy

of the contract with Runckel. Runckel's invoice, however, separately specified charges for contract services at \$75. When we asked WPCC for detailed support for the \$900 charge, we were provided a copy of the Japan Home Show Brochure and Application, the same forms that were presented to OEDD as having been prepared by in-house staff.

In July 1995, WPCC contracted with David Poppe to recruit members to the MIO program. The contract's "Statement of Work" required the consultant to call 135 Oregon secondary wood products manufacturers and make personal visits to 60 of the companies in this recruitment effort. Documentation supporting WPCC's reimbursement requests for these expenses was incomplete. OEDD did not have detailed documentation to support the reimbursement of a \$4,512 payment submitted in September 1995. We later obtained from WPCC documentation to support all but \$2,400 of this amount. While WPCC did have extensive documentation, for the payments we questioned, WPCC did not have a list of specific companies and individuals Poppe contacted, or the available listing did not include all of the days Poppe billed WPCC for MIO membership recruitment services. WPCC's contract with Poppe included base compensation of \$100.00 per day. The contract's rate of compensation necessitated WPCC obtain documentation of daily contacts made by Poppe to support all days billed. These contract payments were subsequently reimbursed as costs of the MIO program.

The second category of questioned costs results from costs being shifted to the Made In Oregon USA Promotion project. Reimbursements for costs paid to J. Swanson, American Landscape, J. Mercer, and costs associated with the Pacific Rim Conference totaling \$3,586 appear more appropriately chargeable to the Oregon Pavilion project area. This project area is reimbursed at a lower rate than the MIO USA Promotion project. It is questionable whether the remaining \$250 should be reimbursed at all from MIO grant funds.

WPCC's Made In Oregon grant consisted of four project areas: Made In Oregon USA Promotion (MIO), Oregon Pavilion, Buyers/Sellers Conference, and Business Plan Update. Funding is provided through lottery money and

U.S. Forest Service Old Growth Diversification Funds (OGDF) through the Rural Development Fund. The MIO project and 84 percent of the Oregon Pavilion project costs are funded by the OGDF. The remaining 16 percent of the Oregon Pavilion project and some costs of the other two projects are funded with state lottery dollars. For three of the four projects within the MIO grant, the OEDD grant contract requires WPCC resources to match the state lottery and OGDF funds in varying amounts. Thus, for some projects, more government funds are available without requiring as much match from WPCC resources. For example, OGDF dollars pay 69.6 percent of project costs for the Made In Oregon USA Promotion project while providing only 35.9 percent reimbursement for the Oregon Pavilion project. The Oregon Pavilion project was also funded with another 6.8 percent from lottery dollars. Total government funds were available to pay a larger percentage of Made In Oregon USA Promotion project costs than for Oregon Pavilion project costs. This difference in reimbursement rates would provide an incentive for WPCC to classify expenses as Made In Oregon USA Promotion costs rather than as being related to the Oregon Pavilion project.

We found \$3,836 of project expenses that appear inappropriately shifted to the Made In Oregon USA Promotion project.

**COSTS APPARENTLY INAPPROPRIATELY SHIFTED TO THE MADE IN OREGON USA PROMOTION PROJECT**

<b>VENDOR</b>	<b>QUARTER BILLED</b>	<b>AMOUNT</b>
J. Swanson	12/31/95	\$ 200
American Landscapes	12/31/95	\$ 650
J. Swanson	12/31/95	\$ 200
Various -- For Pacific Rim Conference	12/31/95	\$ 2,476
J. Mercer	12/31/95	\$ 5
J. Mercer	3/31/96	\$ 55
Express Personnel Services	6/30/96	\$ 40
N. Herse, Graphic Designer	6/30/96	\$ 210
	<b>TOTAL</b>	<b>\$ 3,836</b>

The two Swanson payments were for press releases related to the Japan Home Show, which took place November 7 through November 10, 1995 in Tokyo, Japan. Although the press releases mentioned WPCC and the Made In Oregon program, the primary emphasis was the Japan trade show and the Oregon Pavilion booth. Therefore, it appears the expenses should have been billed to the Oregon Pavilion project, at its lower reimbursement rate, rather than the MIO.

The American Landscape invoice payment of \$650 related to the purchase of one-time, non-exclusive reproduction rights to photographs used in the trade show booth. As such, the cost should have been billed to the Oregon Pavilion project rather than the MIO.

WPCC submitted various invoices associated with a conference titled "Pacific Rim Markets, How to Expand Export Opportunities." Costs incurred for this conference, which was held on December 1, 1995 in Eugene, were charged to the MIO program. No mention is made, however, of the MIO program in either the conference brochure or the reference guide. Furthermore, letters obtained from WPCC after our release to them of a draft audit report state that the MIO booth was featured in the lobby, suggesting that these charges should have been billed to the Oregon Pavilion rather than to the MIO.

The \$55 to J. Mercer was for mileage reimbursement. Mercer, WPCC's former Marketing Director, attended the Wood Tech trade exhibition in Portland on March 13 and March 14. At the show WPCC displayed the MIO booth. The \$5 to J. Mercer was for reimbursement related to the Japan Show in which the MIO booth was also displayed. As such, it appears the \$55 and \$5 should have been charged to the Oregon Pavilion project rather than to the MIO.

The payments of \$40 for Express Personnel Services and \$210 for Natalie Herse relate to the production of the Spring 1996 issue of the Wood Industry News (WIN) newsletter. While the WIN newsletter is listed as a component to the marketing program under the Made In Oregon USA grant, the grant contract does not provide government funding for its production. Rather, it appears that the newsletter was intended to be funded by WPCC

through other resources. The inclusion of one article related to a project component (Japan Home Show) that qualifies for grant funding does not warrant charging the entire expense to the MIO grant.

The questioned amounts described above are summarized in Appendix A.

## CAUSE

The depletion of “startup” lottery funds may have acted as an incentive for WPCC’s executive director to classify costs as grant-related, and seek reimbursement from grant projects providing more government funding and requiring less of WPCC’s resources. The executive director stated during interviews that he looks closely at costs not charged to grants since they generate no revenues. He is more concerned about overhead type expenses that are not being funded and does not question time and expenses that are being charged to grant programs.

The executive director’s comments are consistent with the treasurer’s report from the WPCC board meeting held in March 1996. The treasurer stated that he “encourages staff to be aggressive in pursuing program reimbursements.”

In addition, the grant contract for the Made In Oregon USA program between WPCC and the OEDD may have contributed to the apparent shifting of costs to the more highly government funded Made In Oregon USA Promotion project. This grant contract describes the Made In Oregon USA program as having seven components, with project costs divided into the four project areas described in this report. Although “Exhibit B” to the grant contract requires the recipient to strictly adhere to the budget allocation categories set forth in the agreement, the agreement does not include clear criteria and guidance for grant reimbursement under the four budget categories and relies heavily upon staff judgment. This is particularly true of the Made In Oregon project area which is subject to broad interpretation. The lack of clear criteria and guidance in this area may have created an opportunity for WPCC to request reimbursement from the Made In Oregon USA Promotion project instead of the Oregon Pavilion project, since for the Made In Oregon USA Promotion project total government funds were

available to pay a larger percentage of project costs. Furthermore, without clear criteria, OEDD personnel may have difficulty deciding on the allowability of charges within a specific budget category.

OEDD obtained documentation from WPCC prior to making reimbursement from grant funds; however, some expenses were approved for reimbursement without adequate evidence that they were grant-related.

## **RECOMMENDATIONS**

**We recommend** that the Oregon Economic Development Department determine the allowability of the questioned expense reimbursements and take appropriate action to recover any amounts inappropriately paid to the Wood Products Competitiveness Corporation, Inc. Furthermore, the department should strengthen its approval process to ensure that reimbursements are not approved unless supported by sufficient evidence that allowable services or goods related to the grant program were received. We further recommend that future OEDD grant agreements include more clear criteria and guidance regarding allowable expenses.

## **REPORT DISTRIBUTION**

This report is a public record and is intended for the Oregon Economic Development Department management, the Wood Products Competitiveness Corporation, Inc., the governor of the state of Oregon, the Oregon Legislative Assembly, and all other interested parties.

## **COMMENDATION**

The courtesies and cooperation extended by officials and employees of the Oregon Economic Development Department and the Wood Products Competitiveness Corporation during the course of this audit were commendable and sincerely appreciated.

## **AUDIT TEAM**

Sharron E. Walker, CPA, CFE, Deputy State Auditor  
Sandra Horst, CPA  
Sylvia Gercke, CFE



**FISCAL YEAR 1996 QUESTIONED EXPENSES**

<b>REVIEW AREA</b>	<b>AMOUNT</b>
Payroll	\$1,558
Advertising Costs for Marketing Manager	\$710
Breakfast Meetings	\$1,448
Miscellaneous:	
Inadequate Documentation	\$7,750
Shifted Costs	\$3,836
Total Miscellaneous	<u>11,586</u>
<b>TOTAL EXPENSES QUESTIONED</b>	<b><u><u>\$15,302</u></u></b>



**OEDD'S RESPONSE TO THE AUDIT REPORT**





April 22, 1997

Sam Cochran  
Acting State Auditor  
Oregon Audits Division  
Secretary of State  
255 Capitol Street NE, Suite 500  
Salem, Oregon 97310

Dear Mr. Cochran:

Thank you for your audit on the Wood Products Competitiveness Corporation. Your audit provides us information to pursue discussions with the Wood Products Competitiveness Corporation and its board of directors on the allowability of expenditures under the Made in Oregon contract. We will pursue reimbursement as appropriate.

We have already taken steps to include more specific language in our grant agreements to limit future questions on the allowability of expenditures. We will use this in guiding our release of funds.

We appreciate your help in identifying areas for improvement in our agency operations.

Sincerely,

A handwritten signature in black ink, appearing to read "W.C. Scott".

William C. Scott  
Director





**WPCC'S RESPONSE TO THE AUDIT REPORT**



# **WPCC, Inc.**

*An Association of Secondary Wood Products Manufacturers*

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May 28, 1997

Sam Cochran  
Interim State Auditor  
Audits Division  
225 Capitol St., NE  
Salem, OR 97310

Dear Mr. Cochran:

The WPCC is one of the largest wood products associations in Oregon, with 115 members representing 8,500 employees. Our programs target the secondary wood products industry and help firms market their products, train employees, finance expansion, and identify fiber supply. We typically work on projects jointly financed by the state, federal agencies, and the industry. We believe that our activities benefit not only the companies with which we work, but the communities in which they are located and the state as a whole.

Since our creation in 1991, our industry has seen 17% employment growth while the timber industry has declined substantially over the same period. Most of this growth has occurred in rural, timber dependent areas of the state. WPCC is a powerful force in helping to create a sustainable, value added wood products industry in the state; an industry that is globally competitive using sophisticated technology and skilled employees to compete in the international marketplace. An industry that provides quality family wage jobs throughout the state. An industry with a proud past and a strong future.

We believe our volunteer board and members have worked hard to improve their businesses, their communities, and the State. In our first four years, over 3,500 participants have been involved in activities; the results speak for themselves:

- Created training programs for existing employees and for youth entering the industry, in partnership with high schools and community colleges, that have involved over 800 students and more than 40 companies. Industry takes the lead in developing this curricula and teaching these programs.
- Creation of a youth training program with five Central Oregon High Schools and Central Oregon Community College.
- Developed targeted marketing programs to promote quality made, environmentally sound Oregon wood products both domestically and abroad. Over 250,000 customers have been reached through a major national advertising campaign of the program.
- Attracting over \$5 billion of purchasing power at four Portland-based marketing events.
- 500 firms have participated in seven domestic marketing events.
- 27 firms have attended four international marketing events.
- 670 market leads processed through a manufacturers database matching program.

## **WPCC, Inc.**

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- Assisted in providing over \$13MM in capital to more than 50 firms in partnership with banks, private investors, and public funders.
- Publish a monthly Wood Exchange Listing for fall down and residual items -- helps turn one person's waste into another's raw material.
- Work with over 100 individuals to support the developing Juniper industry, including hosting of two major conferences in Bend and the publication of a Juniper newsletter distributed to over 300 firms throughout Eastern Oregon.
- Held three major wood supply conferences attracting 270 participants, and published a research document on international wood supply.
- Production of a promotion piece on Pacific Northwest Hardwood species, distributed to over 12,000 customers.
- Development of special, safer, material handling equipment with the support of Oregon OSHA.

Our specific concerns with the audit report center around four issues: I) the goal of the Legislature, the Governor, and the WPCC board to achieve balanced funding for the organization, II) the appropriateness of bonuses paid, III) questioned costs, and IV) balance within the audit report.

**I. Funding of WPCC** - The audit report reviews WPCC's ability to be a self-funded organization and states that "70% of direct government funding appears high" given WPCC's goals of being self funded. We do not understand how this section relates to the stated objectives of the audit.

The WPCC board does not believe that 70% public support "appears high". Our organization became a private association in June, 1993. In just three short years, private revenues have grown from 15% in 1994 and 1995, to the 30% in 1996 noted in the audit report, to 53% (year to date) in 1997. Additionally, in the field of economic development non-profits, 30% private income is commendable. Many Oregon-based economic development non-profits like Rural Development Initiatives, Livable Oregon, and Oregon Marketplace, are more highly dependent on public resources. And, as examples, two nationally recognized, award winning, private non-profit economic development initiatives, one in Arkansas and one in Michigan, receive only 30% of their income from private sources, although they have each been in operation for 10 years.

WPCC believes the intent of the Governor, the Legislature, and OEDD supported and approved WPCC's stated goal of pursuing public sector support as part of its long term financial strategy. The original legislation creating WPCC required that WPCC submit to the Governor and the legislative Emergency Board "a strategic plan for the development of the industry and implementation" of the legislation. The Strategic and Implementation Plans submitted to and approved by the Governor in 1992, stated that the WPCC "would be free to seek support from state government, foundations ...", and specifically noted that "\$9,000,000 in support from partners, foundations, federal and state government" were to be leveraged to support WPCC's mission. In 1993, new legislation enabled a privatized WPCC to enter into a contract with OEDD to complete the work initiated by the 1991 legislation. The Statement of Work to this contract specifically states the goal of raising "\$12,000,000 [in] federal program [support] " .

## **WPCC, Inc.**

### *An Association of Secondary Wood Products Manufacturers*

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WPCC board minutes support these positions, as noted in 10/93 minutes which state, "the importance of obtaining public sector monies" to further our mission, and in 10/94 minutes which state, "revenues should be 1/3 grants, 1/3 membership, and 1/3 service fee". (It should be noted that the majority of the grant and contract income were service fees paid for the development of curriculum, organizing of marketing activities, etc.) And an independent evaluation of WPCC conducted in 1993 and cited in the audit report states, "One common assumption was that ... WPCC would have to go back to the state for a further allocation" of funding. It should be noted that as of 1996, WPCC still had not made any requests to the legislature for additional funding.

In the audit's discussion of WPCC's membership levels, we believe that it is important to note WPCC's membership of over 110 companies makes it one of the largest wood products associations in the Pacific Northwest. The Evergreen Partnership, in operation for more than 10 years in Tacoma, has approximately 110 members. The Wood Moulding & Millwork Association, located in Portland for more than 20 years, has a membership of less than 80 firms. The Western Wood Products Association, one of the oldest wood products associations in the region with a 30+ year history has less than 50 corporate members. Additionally, the WPCC board of directors has focused membership efforts and program activities on firms with greater than 10 employees and less than 500 employees. Data from the Oregon Employment Department indicates that there are 279 secondary wood products firms with greater than 10 employees. Therefore, WPCC has penetrated a large portion of its target market in just 3 1/2 years of operation as a private association. And WPCC's membership represents 8,500 employees or 37% of secondary employment in the state. I think that the staff and the association have done an outstanding job in this area.

WPCC is a new organization. It was created in 1991 with public funds. In 1993 it became a private non-profit association. We believe the WPCC should be commended for finding balanced funding; 30% private support in just 3 years time, including an increase in member dues income of almost 400% over a two year period.

WPCC is a bridge between the public and private sectors. As stated in the 1991 enabling legislation one role of WPCC is "to guide ... state efforts to assist the industry", and the mission statement in WPCC's 1992 Strategic plan states an organizational goal of forming "new strategic alliances within the industry and with government". As such, we believe WPCC should maintain a close relationship with the public sector, and believe funding partnerships are one component of this relationship.

When discussing WPCC's use of public funds, it is important to note our success in extending the funds provided by the 1993 state contract from 15 months to 30 months, for a doubling of their use for project activities. It is also important to note the competitive nature of the public contracts received by WPCC -- that the organization was awarded this support by a number of state and federal agencies on the basis of merit, of what was in the public interest.

II. Staff Bonuses - The audit report questions the "appropriateness" of bonuses paid to five staff members totaling \$12,431 over a 2 year period. WPCC questions the relevance of the issue in relation to the stated scope of the audit. These bonuses were paid from WPCC member dues and not public funds. The bonuses for the executive director were approved in advance by the WPCC

## WPCC, Inc.

### *An Association of Secondary Wood Products Manufacturers*

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board of directors and were provided for achieving specific goals like increasing membership. Bonuses to staff as incentives for achievements such as cost cutting measures. And in each year, the board approved payroll budget was actually underspent -- even with bonuses included!!! This incentive compensation was provided by a conservative board that wanted to pay for performance -- to provide bonuses for outcomes in lieu of increases in base salary.

The audit report questions the bonuses because "WPCC has shown a steady decrease in net income". Over the three year period 1993-96, WPCC had a cumulative positive net income and only had a negative net income in one year, 1996, and in that year the loss was less than 1% of total revenues. WPCC is a non-profit organization, and as such needs only to break even. A *decrease* in short-term net income should not warrant concern as long as the organization *breaks-even* over the long-term.

The audit report questions the bonuses because of WPCC's "heavy reliance on state and federal grant funds ...". Many grant funded and publicly funded organizations provide bonuses to their staff. Incentive compensation within non-profit organizations is increasingly recognized as a cost effective way to pay for performance. There are no accounting standards which indicate that bonuses should not or can not be utilized within grant funded or publicly funded organizations. WPCC should be commended for its application of cost effective management techniques.

The audit report questions the bonuses because they "appear inconsistent with originally established membership goals". We do not understand why it is inappropriate to provide incentive compensation for milestones reached along the path to an ultimate goal. Specifically, WPCC's bonus program provided incentives for reaching the 100 member and 200 member levels. It is not uncommon that bonuses are provided for in this fashion.

We believe the director and staff are not overcompensated, are doing an excellent job, and are well deserving of the bonuses received.

#### *Delayed Business Plan Update*

The Made In Oregon contract states that, "a revised business plan" be submitted. WPCC provided a draft business plan to OEDD with the 12/30/95 quarterly report within the extension time frame approved by OEDD. OEDD staff were involved in developing this draft. WPCC again provided an updated draft business plan with the 3/31/96 quarterly report and noted in the quarterly report, "However, in order to ensure a strong association, the board voted to eliminate the Portland office, reduce administrative staff, and restructure some staff salaries and benefits. The Business Plan is currently being updated and will be submitted to the Board for review at the upcoming meeting on May 10." Subsequently, on July 30, WPCC staff requested an extension for completion of the business plan through December 31, 1996.

The audit report notes, "WPCC staff completed the business plan only after OEDD staff met directly with WPCC's board ...", but does not mention the above information provided to the Audits Division. In fact, OEDD did not respond to WPCC inquires requesting an extension (the quarterly report dated 3/31) or the letter dated July 30. Additionally,

## WPCC, Inc.

*An Association of Secondary Wood Products Manufacturers*

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WPCC submitted an invoice for \$10,000 for the business plan in July, 1995, prior to completion of the business plan, at the request of OEDD.

### III. Questioned costs -

There are several areas where WPCC provided documentation to the Audits Division related to specific questioned grant charges that have not been noted in the audit report. WPCC believes that the questioned costs noted below were appropriately documented and appropriately charged to the grant programs in question.

#### *A. Time sheet Adjustments -*

It is WPCC policy for management and supervisors to review time sheets for accuracy each month and make changes as appropriate. OMB Circular A-122, attachment A, section B 6(1)2.c notes that, "the reports [time sheets] must be signed by the individual employee or by a responsible supervisory official having first hand knowledge of the activities...". WPCC has complied with this guideline.

Although we agree that it would have been better to have affixed contemporaneous notes on time sheets where the supervisor disagreed with, and changed, the allocation of time proposed by the employee, in each case, we believe that the final allocation -- that done after the corrections were made -- was more accurate. It is management's responsibility to assure that time charged is accurate, especially when grantors are paying. We believe it would be unreasonable to expect supervisors to simply accept time sheets as submitted even when those supervisors have knowledge of errors. We don't believe that any federal or other rules exist that require unadjusted time sheets as source documentation of allocations.

WPCC staff have reviewed time sheets for the period July 1, 1995 - March 31, 1996 to determine if there was a problem related to adjustments in employee time sheets. A total of 55 monthly time sheets were submitted for 6 employees over this 180 day period for a total of 3,852 payroll transactions. After review, 19 or .49% of the payroll transactions were noted to have been changed.

We are pleased that the audit report does note that 56% (36 hrs.) of the questioned adjustments were "appropriately charged to the ... grant ...".

Please note we have provided 13 pieces of contemporaneous documentation to substantiate changes to an additional 38% (25 hrs.) of questioned staff time. The audit report notes that WPCC provided "various memorandum supporting the changes made". The audit notes some of these memoranda were inconsistent with an interview of an employee. It is our opinion that contemporaneous documentation is superior to an interview with an employee that took place 9 months after the events in question.

WPCC's policy on review of time sheets and expenses is as follows: Time sheets and expenses are reviewed to ensure that all programs are billed accurately. It is important that WPCC staff correctly bill grants and contracts for work performed to ensure full cost recovery, and that all

## WPCC, Inc.

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expenses, both contract and non-contract, are accurately tracked so that staff and the board have the management information they require.

#### *B. Marketing Manager Recruitment*

The audit report notes "the marketing manager spent 28% of his time" on grant projects during the period 4/95 - 12/95. The report does not note documentation provided to the Audits Division that eligible activities represented 84.6% of the managers time over the period in question and that the budget for the future activities indicates that over 96% of the managers time would be devoted to activities eligible under the grant contract.

#### *C. Breakfast Meetings*

The audit report notes, "according to a WPCC employee the primary purpose of the breakfast meetings was to provide industry representatives with an opportunity to network". The audit should note that these comments relate to WPCC member breakfast meetings in general. Not all breakfast meetings were charged to the Oregon Pavilion or the MIO grant. WPCC has held 20 breakfast meetings since April 1996. Only those meetings related to promoting specific trade events were billed to the Oregon Pavilion grant.

Specifically, WPCC contractor K. Caldwell attended breakfast meetings on May 29 & 30 to promote attendance in the Oregon Pavilion at the upcoming National Building Products Show in Chicago. Caldwell signed breakfast meeting attendance sheets as "Kevin Caldwell, WPCC/Caldwell Cascade" noting his official position representing WPCC in these activities. Registration deadlines for this event were approaching and promotion of the event and discussion of questions by the membership at the breakfast meetings was import to recruitment efforts. These promotional activities were noted in the grant narrative submitted to OEDD for reimbursement and provided to the Audits Division.

WPCC executive director attended breakfast meetings on June 25 and June 26 to promote participation in the Oregon Pavilion at the upcoming Japan Home Show. Registration deadlines for this event were approaching and promotion of the event and discussion of questions by the membership at the breakfast meetings was import to recruitment efforts. These promotional activities were noted in the grant narrative submitted to OEDD for reimbursement.

Typically, WPCC promotes events in several ways. An article is written in the newsletter. A fax notifying membership is sent. Phone calls are made to the membership and other interested companies. The event is promoted at local meetings and questions are answered in this forum. These steps were followed in promoting the Chicago Show and the Japan Home Show.

Adequate documentation of the costs was provided. It appears the audit report questions the relevance of the activities to the MIO grant. However, the costs for these breakfast meetings were not questioned by OEDD within the 30 day time period allowed under the Made In Oregon contract (section 1.02), as noted "If the State does not suggest



modifications within 30 days after receipt, the documents shall be deemed approved and payment shall be made."

*D. Costs Requesting Further Documentation by Auditor*

It should be noted that the costs in question are all supported by vendor invoices, written approval from the WPCC staff, and independent documentation including copies of the work products or summaries of work activities.

1. J Runckel, \$900. The audit report notes that the quarterly grant narrative submitted states "WPCC staff developed the Japan Home Show Brochure and JHS Application Form and Worksheet" and that the contractor billed for "... brochure and application development". The audit report seems to imply that WPCC staff and a contractor are unable to be jointly involved in activities related to brochure and application development. In fact, the contractor developed these forms with input on their content and design from the WPCC Marketing Manager, who had overall responsibility for the program and approved the invoice for payment. Therefor, both staff and contractor billed for a portion of these items. Adequate documentation is provided in the form of the contractors invoice, signed approval from the marketing manager, signed WPCC time sheets and presentation of the completed products. WPCC questions which costs are inadequately documented.

2. D. Poppe, \$2,400 +. Documentation has been provided for these expenses. The WPCC received invoices from the contractor for work performed, received detailed call summaries and results of contacts, many of the phone contacts were made from the WPCC Portland office under the supervision of the WPCC Marketing Manager, and many of the site visits were made jointly by the contractor and WPCC's Marketing Manager. WPCC was satisfied with the results of the work and that it was done professionally.

The audit report notes the contract required D. Poppe to "call the target list of 135" firms and "select 60 companies for personal visits". The "target" outcome for the contract was "20 to 35 new participating companies". Over the course of this contract, more than 135 companies were contacted and WPCC gained 29 new participating companies in the MIO program.

Poppe submitted invoices documenting days worked on the project, which were submitted to OEDD along with the grant billings. WPCC marketing manager was directly involved in these project activities along with Dave Poppe and the manager approved Poppe's invoices for payment. Dave Poppe often made phone calls to prospective MIO participants from WPCC's offices and was directly supervised by the marketing manager. Dave Poppe was often joined by the manager on his visits to prospects. Expense reports submitted by the marketing manager indicate that he traveled with Poppe on at least 6 occasions to over 13 firms to recruit MIO members.

Additionally, Dave Poppe submitted detailed reports to WPCC on the status of his activities. On 10/23 a report noting the status of 132 prospects was submitted. On 12/5 a call summary report was submitted noting the status of 111 prospects from the period 8/1

## WPCC, Inc.

### *An Association of Secondary Wood Products Manufacturers*

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through 9/31. On December 5, a call summary report was submitted noting 26 contacts from the period 10/1 through 12/5. On 12/7 a final follow up report noting the status of 120 prospects was submitted. An additional four miscellaneous reports are also provided noting prospects that had been divided between the WPCC Marketing Manager and Dave Poppe, indicating their close working relationship.

As noted above, costs for this contractor were not questioned by OEDD within the 30 day time period allowed under the Made In Oregon contract (section 1.02), as noted "If the State does not suggest modifications within 30 days after receipt, the documents shall be deemed approved and payment shall be made."

#### *E. Questioned Allocations*

The audit report notes "the agreement [Made in Oregon contract] does not include specific criteria and guidance as to what may and may not be included for reimbursement under the four budget categories ..." This implies the decision as to what to charge to each grant category should be made by the contractor (WPCC) and reviewed and/or approved by the grantor (OEDD).

In future contracts, WPCC will require a clear scope of work for all program elements before proceeding with contract activities.

Of the seven transactions noted in the audit report in this section, two were already posted to the Oregon Pavilion category, two were approved by contract manager B. Campbell, OEDD, as eligible for posting to the MIO category, and one was already identified by WPCC and OEDD as incorrect and adjusted to the Oregon Pavilion category. Additional documentation is provided for the remaining two items to support their eligibility as MIO activities.

The guidelines WPCC used to differentiate charges between the Made In Oregon activity and the Oregon Pavilion activity were simple:

- Made In Oregon activities involved the planning, evaluation, participant recruitment and general promotion of the entire Made in Oregon program, including the Oregon Pavilion activity.
- The Oregon Pavilion activity related to industry members' attendance at a trade event where the Oregon Pavilion was used to promote the sale of their products. The Oregon Pavilion is a physical trade show booth designed to highlight Oregon made value added wood products.

#### 1. J Swanson, \$200

This expense was approved by OEDD as chargeable to MIO category of the MIO grant. This press release noted both the upcoming Japan Home Show and the Made In Oregon program. Upon discussions with OEDD staff, it was determined that this expense could be classified in either MIO or Oregon Pavilion category. Classification as MIO was approved by B. Campbell, OEDD.

#### 2. American Landscapes, \$650

## **WPCC, Inc.**

### *An Association of Secondary Wood Products Manufacturers*

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Adjustment for this charge to the Oregon Pavilion category of the MIO grant has already been made by OEDD and WPCC, and was reflected in grant reimbursements received. Upon discussions with OEDD staff, it was determined that this should be classified in the Oregon Pavilion category. This adjustment has already been made by OEDD and WPCC.

#### **3. J Swanson, \$200**

This expense was approved by OEDD as chargeable to MIO. This press release noted both the results of the Japan Home Show and the Made In Oregon program. Upon discussions with OEDD staff, it was determined that this expense could be classified in either MIO or Oregon Pavilion category. Classification as MIO was approved by B. Campbell, OEDD.

#### **4. Pacific Rim Conference, \$2,471**

The Made In Oregon booth was set up at the conference and the Made In Oregon program was discussed extensively at the conference as a way to bolster exports to the Pacific Rim. This was an important venue to promote the Made In Oregon program and recruit participants, and discuss one of the program's primary elements -- participation in foreign and domestic trade shows through the Oregon Pavilion. Companies did not display or promote products within the booth.

Additionally, the eligibility of this conference for Made In Oregon grant funding was verbally confirmed with OEDD staff Bill Campbell prior to the event. Independent letters from the event co-sponsors, US Department of Commerce, Oregon Economic Development Department and the Evergreen Partnership confirm the focus on MIO activities. Expense reports from Jim Mercer note the purchase of "Made In Oregon buttons for Export Conference" on November 27. (see attached expense report) These buttons were worn by WPCC staff and members at the conference to promote the MIO program.

As noted above, costs for this conference were not questioned by OEDD within the 30 day time period allowed under the Made In Oregon contract (section 1.02), as noted "If the State does not suggest modifications within 30 days after receipt, the documents shall be deemed approved and payment shall be made."

#### **5. J Mercer, \$55**

No WPCC member companies or MIO companies were present in the MIO booth at the show, therefore WPCC staff did not consider this an 'Oregon Pavilion'. Instead, the purpose of the booth was to promote participation in the MIO program. As noted above, costs for this conference were not questioned by OEDD within the 30 day time period allowed under the Made In Oregon contract (section 1.02), as noted "If the State does not suggest modifications within 30 days after receipt, the documents shall be deemed approved and payment shall be made."

#### **6. Express Personnel, \$40**

This expense was correctly coded to the Oregon Pavilion. However, a pro rata portion of this newsletter expense should have been charged to the Oregon Pavilion as the June 96 lead article focused on the Japan Home Show. WPCC should also charge a pro rata portion of the postage costs of this issue to the program as well. These postage costs were billed as overhead costs.

## **WPCC, Inc.**

*An Association of Secondary Wood Products Manufacturers*

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### **7. N Herse, \$210**

WPCC produced 16 newsletter publications over the fiscal year incurring \$12,496 in costs. This was the only portion of those costs billed to the Oregon Pavilion. WPCC could have, but did not, bill pro rata portions of 13 newsletters which featured the MIO or Oregon Pavilion program 14 times, 10 of those on the cover of the publication. This appears to be an example of WPCC not fully recovering eligible costs under this MIO grant, ie underbilling.

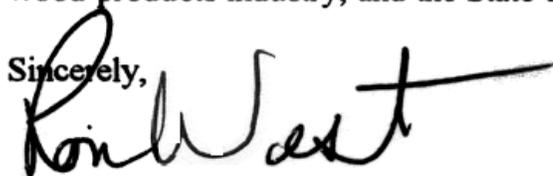
The expense in question was correctly coded to the Oregon Pavilion. However, a pro rata portion of this newsletter expense should have been charged to the Oregon Pavilion as the June 96 lead article focused on the Japan Home Show. WPCC should also charge a pro rata portion of the postage costs of this issue to the program as well.

**IV. Balance** - To make the report more balanced, we believe it is important to note that in early 1996, as the level of contract and grant activity increased, WPCC increased its in-house accounting expertise with an individual who has 30 years of professional accounting experience as a controller with a Fortune 50 company. It is also important to note this individual installed new accounting software which is better suited to track grant expenses. WPCC's grant funded programs were all completed under budget. In certain cases the useful life of state funded activities were extended from 15 months to 30 months under the same contract amount. And the contracted activities, including the Made In Oregon program, have involved over 500 firms, developed over 1,000 trade inquiries, brought purchasers representing over \$5 billion in annual sales to Oregon, and closed millions of dollars in new sales for Oregon firms.

In summary, it is important to point out the risk taken by the State of Oregon in creating WPCC. Then Senate President Kitzhaber led the development of this unique public-private partnership. The State's investment in this organization, in the growth of the secondary wood products industry, and its rural citizens certainly deserves evaluation. We believe full evaluation will show the importance and success of this experiment.

On behalf of our board, membership, and our entire industry, I disagree with some of the findings in the audit report, and feel the report would have been more balanced if it had expanded on the subjects noted above. We believe this audit report does a disservice to the efforts of staff, association members, and volunteer board members to support a growing effort to unite an industry so that we can better compete in the international marketplace. A balanced, constructive document that would benefit WPCC, Oregon Economic Development Department, the secondary wood products industry, and the State of Oregon would have been welcome.

Sincerely,



Ron West, Chair - WPCC  
Cone Cut Stock, Eugene

encl.