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Secretary of State

State of Oregon

**DEPARTMENT OF GEOLOGY  
AND MINERAL INDUSTRIES**

July 1, 1996, to June 30, 1997



**Audits Division**

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*Auditing for a Better Oregon*

The Honorable John Kitzhaber  
Governor of Oregon  
State Capitol  
Salem, Oregon 97310

Donald A. Hull, State Geologist  
Department of Geology and Mineral Industries  
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As requested by the Department of Geology and Mineral Industries (department), we conducted a financial related audit of the financial accounts and records of the department for the period July 1, 1996, to June 30, 1997.

During the audit we found no instances of noncompliance with laws and regulations. However, the department can improve its internal control related to cash receipting, and accounting for trust funds payable and fixed assets.

The department's responses to our findings and recommendations are included within this report.

The cooperation extended by the management and staff of the department was commendable and sincerely appreciated.

OREGON AUDITS DIVISION

John N. Lattimer  
Director

Fieldwork Completion Date:  
March 2, 1998



# TABLE OF CONTENTS

	<u>Page</u>
SUMMARY .....	vii
INTRODUCTION	
ORGANIZATION AND FUNCTIONS .....	1
FINANCIAL ACTIVITIES.....	1
SCOPE AND METHODOLOGY .....	2
AUDIT RESULTS	
REPORT ON INTERNAL CONTROL.....	5
REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS .....	6
FINDINGS AND RECOMMENDATIONS:	
CASH RECEIPTING.....	7
ACCOUNTING FOR RECLAMATION BONDS AND DEPOSITS.....	12
ACCOUNTING FOR FIXED ASSETS .....	14
REPORT DISTRIBUTION .....	15
COMMENDATION .....	15
APPENDIX A .....	17



## **SUMMARY**

### **AUDIT PURPOSE**

The objectives of the audit were to determine whether the Department of Geology and Mineral Industries (department) has controls in place to safeguard assets; whether selected transactions complied with pertinent laws, rules, and regulations; and whether revenues and expenditures were consistent with budget forecasts and expectations derived through analytical procedures.

### **BACKGROUND**

The department was created in 1937. It is the state's centralized source of geologic information that can be used by the public and by government to reduce future loss of life and property due to earthquakes, tsunamis, coastal erosion, and other geologic hazards. The department serves as a steward of mineral production, and is the lead regulator for geologic resources.

The department, through the Mined Land Reclamation Program located in the Albany field office, is the lead agency for state mining regulation.

The department provides geologic data to assist in policy development through publications, release of electronic data, and through department participation in and coordination with federal, state, and local governmental natural resource agencies, as well as with industry and other private sector groups.

The department is financed by state General Fund appropriations, federal grants, permit fees, and sales of maps and publications.

### **RESULTS IN BRIEF**

We found no instances of noncompliance with laws and regulations; however, the department can improve its internal controls related to cash receipting, recognizing reclamation revenues, and tracking fixed assets.



## INTRODUCTION

### ORGANIZATION AND FUNCTIONS

The department operates under *Oregon Revised Statutes* chapters 516, 517, 520 and 522. Oversight responsibility is vested in a three-member governing board appointed to four-year terms by the Governor.

The department is the state's central source of geologic data necessary for public safety, land resource decision making, and land use. It is responsible for regulating the use of geologic resources and overseeing exploration, production, environmental protection, and reclamation of mined lands. The department prepares and sells subscriptions for a bi-monthly publication titled *Oregon Geology*.

The mission of the department is to serve a broad public by providing a cost-effective source of geologic information for Oregonians and to use that information in partnerships to:

- reduce the future loss of life and property due to potentially devastating earthquakes, tsunamis, landslides, floods, and other geologic hazards;
- inventory geologic resources including aggregate, groundwater, and mineral fuels that are needed by a growing population;
- formulate policy based on an improved understanding of the geologic processes and conditions that will affect the use of the lands and waters of the state; and
- guide the responsible development of mineral resources.

### FINANCIAL ACTIVITIES

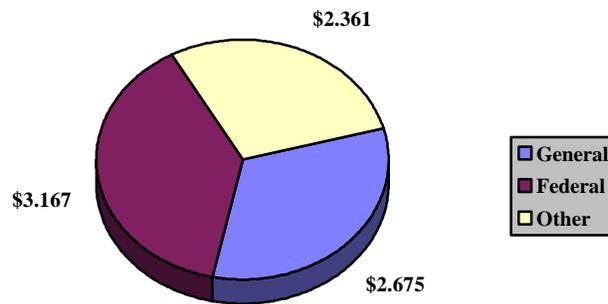
The department is financed by state General Fund appropriations, federal grants, and other funds. Other funds are derived primarily from mining permit fees and sales of maps and publications. The department's finances are used primarily to pay administrative expenditures

incurred in acquiring and disseminating Oregon geologic information and in regulating mineral production.

The department's 1995-97 funding sources include:

General Funds	\$ 2.675 million
Federal Funds	3.167 million
Other Funds	<u>2.361 million</u>
TOTAL	\$ 8.203 million

**Department Funding Sources (millions)**



For the period July 1, 1996, to June 30, 1997, the department reported revenues and general fund appropriations of \$3,144,112 and expenditures of \$2,989,797, and ended the period with a cash balance of \$518,088.

The department uses the Statewide Financial Management System (SFMS) to record its accounting transactions. The accounts of the department are organized on the basis of funds and account groups, each of which is considered a separate entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures.

## **SCOPE AND METHODOLOGY**

The objectives of the audit were to determine whether controls were in place to safeguard assets and whether

selected transactions complied with pertinent laws, rules, and regulations. We reviewed internal controls and tested transactions for the period July 1, 1996, to June 30, 1997. In addition to performing analytical procedures for the department's revenues and expenditures, we tested personal service expenditures, payroll expenditures, services and supplies expenditures, travel expenditures, cash receipts, accounts receivable, accounts payable, trust funds payable, fixed assets, and revenues.

We also reviewed the ten federal programs included on the department's 1997 Schedule of Federal Financial Assistance to assure amounts reported agreed with the federal reimbursement forms. We traced the June 30, 1997, reimbursement forms to the department's accounts receivable aging report. For each of four federal programs, we traced one reimbursement paid during fiscal year 1997 to its supporting expenditure detail.

To accomplish the audit's objectives, we reviewed relevant statutes and laws, interviewed department personnel, obtained and reviewed department accounting documentation, and reviewed various other documents and information.

We conducted our audit in accordance with generally accepted government auditing standards. Our review was limited to the areas specified in this section of the report.



## AUDIT RESULTS

### REPORT ON INTERNAL CONTROL

The management of the department is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls. The objectives of an internal control system are to provide management with reasonable assurance regarding the reliability of financial reporting, the effectiveness and efficiency of operations, and compliance with laws and regulations. Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

In planning and performing our audit, we obtained an understanding of internal control. With respect to the internal control system, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures and not to provide an opinion on the internal control. Accordingly, we do not express such an opinion.

We noted certain matters involving internal control and its operation that we consider to be reportable conditions under the standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low

level the risk that errors or irregularities may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters affecting internal control that might be reportable conditions and, accordingly would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described is a material weakness. The matters we consider to be reportable conditions are included in the FINDINGS AND RECOMMENDATIONS section of this report starting on page 7. We also noted other matters involving internal control and its operation that have been communicated separately to management.

#### **REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS**

Compliance with laws and regulations applicable to the department is the responsibility of management. As part of our audit, we performed tests of the department's compliance with certain provisions of laws and regulations relating to selected transactions. However, the objective of our audit was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

## FINDINGS AND RECOMMENDATIONS

### CASH RECEIPTING

Our audit identified weaknesses in the department's cash controls which could put cash receipts at risk and prevent the timely detection of a loss or theft of funds. The department collected more than \$1.4 million during fiscal year 1997. The Portland administrative office received approximately \$984,500, primarily in reimbursements from the federal government for services performed under federal programs, and from subscriptions to and back issue purchases of *Oregon Geology*. Approximately \$900,000 (91 percent) of this amount was received by the office through wire transfer, with the remaining balance received as cash or check. The Albany field office received approximately \$460,300 in mining permit fees. The Grants Pass field office collected approximately \$13,100 from the sale of maps and publications. Cash receipts, which consist of cash and checks, can easily be converted to personal use and are particularly susceptible to theft.

**Cash Receipt Logs** According to the *Oregon Accounting Manual* (03 01 00.PR.109), cash receipts should be recorded as soon as they come within an agency's control. To detect subsequent loss or theft, it is important to make a record of all collections immediately after receipt. Cash receipt logs establish control over collections and provide an audit trail to determine accountability. A properly prepared cash receipts log lists all collections received, the date each remittance was received, the amount and form of each remittance, the name of the remitter, and the purpose for the collection, if known. Completed logs provide a means to compare amounts received to accounts receivable and deposits made. Additionally, the *Oregon Accounting Manual* requires all checks to be restrictively endorsed upon receipt.

We found that cash receipts logs are not prepared in either the Portland administrative office or in the Albany field office. Furthermore, in the Portland administrative office and the Grants Pass field office some checks are not restrictively endorsed upon receipt.

**Cash Receipt Forms** The Grants Pass field office staff issues hand-written receipts forms with sales of maps and other publications. According to the *Oregon Accounting Manual* (03 01 00 PR.112), cash control through the use of pre-numbered receipt forms is only effective when a strict accounting is made of all forms. Our review of receipts issued by the Grants Pass field office for three months during fiscal year 1997 found that three receipts were missing. The receipts may have been voided; however, it was not possible to determine this because the office does not retain and account for voided tri-copy receipts. Additionally, receipts were not always used in numeric order. We also found that receipts had been used to record accounts receivable from an order of publications by another state agency. These receipts were written and the order shipped in July 1996, but the payment was not received and deposited until September 1996.

The Grants Pass staff sends remittance reports to the Portland administrative office when deposits are made; however, staff at the administrative office do not check the remittance reports to ensure all receipts are accounted for. Disposition of receipts is difficult to determine from the remittance reports since the receipts are not listed on the reports in numeric order.

**Cash Deposits** House Bill 2180, passed during the 1995-97 legislative session and effective October 4, 1997, requires state agencies to deposit moneys not later than one business day following the day collected or use a reasonable, longer period for valid business reasons documented and filed with the Secretary of State Audits Division. The risk of cash receipts being lost, misappropriated, or stolen increases if deposits are not made timely and receipts adequately safeguarded until deposit. Also, deposit delays result in lost interest earnings to the state.

We found cash receipts are not deposited on a daily basis in the Portland administrative office, the Albany field office, or the Grants Pass field office. In the Portland administrative office receipts are deposited approximately twice per month. The Albany field office staff deposit receipts weekly to bi-weekly. The Grants Pass field office staff deposit receipts weekly.

Additionally, cash bonds received in Albany from mine operators are mailed to the Portland administrative office, instead of being deposited by the Albany office. This results in deposit delays and places the checks at risk of loss or theft until deposit. In fiscal year 1997, the Albany field office received three cash bonds totaling \$45,720.

**Cash Safekeeping** Some checks are not kept in a locked cabinet or safe until deposit. In the Portland administrative office, checks for subscriptions to and back issues of *Oregon Geology* are stored in an unsecured location until they are entered to a database, approximately twice per month. In fiscal year 1997, 424 checks totaling \$7,650 were received for subscriptions and back issues. In the Albany field office, checks for initial mining permits are placed in an unsecured location until they are processed by the office manager. There were 48 of these checks totaling approximately \$32,400 in fiscal year 1997. In the Grants Pass field office, cash receipts are not stored in a locked cabinet or safe until deposit. Copies of issued receipts are stored in an unlocked desk drawer.

Keys to locked cabinets containing cash and checks are not adequately safeguarded in the Portland administrative office or the Albany field office.

**Segregation of Duties** These weaknesses in cash controls are compounded by a lack of segregation of duties for employees. In the Portland administrative office only one person opens the mail. Another employee who has custody of the cash and checks also records receipts in the accounting system. In the Albany field office one person opens the mail, records receipts, prepares the deposit slips, and takes the deposit to the bank. This person also has access to unissued mining permits. In the Grants Pass field office one person receives cash, issues a receipt, records the receipt, and makes the deposit. As a result, there are not adequate checks and balances to detect errors or misappropriations.

**We recommend** the department initiate the following procedural changes at its Portland administrative office:

- Assign two people to open mail that may contain cash remittances.

- Prepare cash receipt logs when the mail is opened and checks are received. The logs should include the date of receipt, the amount and form of each remittance, the name of the remitter, and the purpose of the remittance, if known.
- Make daily deposits of receipts.
- Reconcile the cash receipt logs to validated deposit slips. Reconciliations should be performed by an employee other than the person who prepared the logs and deposit slips.
- Restrictively endorse all checks and place them in a secure location until deposit.
- Safeguard keys to the locked cabinets where receipts are held.
- Reassign staff to obtain maximum possible separation of cash handling and accounting duties.
- Ensure that all receipts issued by the Grants Pass field office are accounted for.

Additionally, **we recommend** the department initiate the following changes to procedures at its field offices:

- Issue receipts in numeric order.
- Provide each customer with one copy of the tri-copy receipt, retain the second, and submit the third copy to the Portland administrative office with each remittance report.
- List receipts in numeric order on the remittance reports.
- Account for voided receipts on remittance reports, and send all three copies of voided receipts to the Portland administrative office with the remittance reports.
- Track accounts receivable in a subsidiary ledger, and issue receipts only when cash is received.

Finally, **we recommend** Portland administrative office staff ensure all field office receipts are accounted for.

We have summarized the cash control weaknesses as they relate to each of the department's offices in Appendix A of this report.

**AGENCY RESPONSE:**

**Cash receipting:**

*Keeping a cash receipt log could be another good internal control. We would like to point out some alternative controls in place which mitigate the need for a cash receipt log.*

*Of the approximately \$984,500 received by the Portland administrative office during fiscal year 1997, approximately 91 percent was received in the form of wire transfers from the Federal Government or from interagency transfers which do not have the same security issues of regular checks.*

*A great deal of the remaining amount is in the form of government or corporate issued checks which are immediately secured in a fireproof locking file drawer.*

*Except for small amount of cash received for making copies, (approx. \$200 per year), all other receipts are in the form of receivables which are entered on the statewide accounting system. If these receipts were lost or stolen, they would be immediately evident to the accountant or business manager who periodically reviews the receivables aging report.*

*There is approximately \$9,000 in checks for Oregon Geology which are immediately restrictively endorsed and later deposited.*

*We agree that having a cash receipts log maintained by another person than the accountant who opens the mail and records the receipt is a good internal control which possibly should be implemented. However, it is also important to realize that the risk factor of handling these receipts is mitigated.*

**Cash receipts form:**

*Since the audit, DOGAMI has issued new internal control policies for field offices. Receipts are now checked sequentially and sent to the Portland administrative office from the Grants Pass field office (sequentiality has not been a problem in the other offices). In the Portland administrative office, the receipts are checked for sequentiality including voids. Furthermore, to ensure receipts are prepared and issued to customers, we are asking the field offices to post a sign offering a prize for anyone not issued a receipt.*

*Cash receipts for the Grants Pass field office is very small (approximately \$13,100 per year). Furthermore, all cash handling is done in a public place where irregularities are harder to hide.*

**Cash Deposits:**

*Most of our cash receipts are handled through the Nature of the Northwest bookstore which deposits cash daily. The small amount of daily receipts in the Grants Pass and Baker City field offices are deposited weekly. We are now requiring Albany to do daily*

*deposits, since their receipts are over \$1,000 per day. We have not as yet filed a notification with the Oregon Audits Division for an explanation of our differing practices.*

*We are now including the checks received at the Portland administrative office in the daily bookstore deposits. The Baker City and Grants Pass field offices are normally staffed by one part-time office person. The cash receipts volume in these offices averages \$237 per week. We believe the time loss associated with daily deposits would be a hardship and an unacceptable reduction of public service. The other cash receipts in the Portland administrative office are \$5-\$10 per week and require a petty cash reconciliation.*

*We will file our notification of policy difference with documentation with the Oregon Audits Division and the Oregon State Treasury.*

***Cash Safekeeping:***

*Oregon Geology subscriptions and Albany renewal fees are restrictively endorsed upon receipt, so there is little chance for theft. These receipts are also reconciled against subscription renewals and mined site renewals, respectively. We have also implemented keeping the Oregon Geology subscription receipts and the mined site renewal fees in a secure locked location. Furthermore, we will be implementing a policy requiring more frequent deposits by the Albany field office.*

***Segregation of duties:***

*Current staffing levels do not permit further segregation of duties. The Grants Pass and Baker City field offices are each only staffed with part-time office specialists who can consistently handle all business aspects of the office. In Albany the department employs one full-time and one part-time office specialist to handle cash receipts and all other office business. All of the other field office staff are in the field primarily and cannot provide consistent separation of duties at any level. In the Portland administrative office we only have one accountant to handle custody of cash and checks as well as record receipts. All cash is reconciled against sequentially numbered cash receipts which are reviewed by the business manager.*

*In the Albany field office, our one part-time staff issues permits which are reconciled against the cash receipts (site numbers are written on deposit slips).*

**ACCOUNTING FOR  
RECLAMATION BONDS  
AND DEPOSITS**

The department requires most mining operators to post cash bonds or assign bank deposits to be used for reclamation costs if a mine is closed or abandoned. As of June 30, 1997, the department had a balance of \$211,446

in cash bonds received from mine operators, and a balance of \$638,147 in securities held in trust, primarily composed of assigned deposits.

The department accounted for these cash bonds and assigned deposits as Trust Funds Payable, a liability due to the mine operators. However, \$9,505 of the assigned deposits will not be released, and \$37,446 of the cash bonds will not be refunded. Instead, these amounts have been seized by the department to pay reclamation costs for mining sites; therefore they should not be considered liabilities. The department uses the modified accrual basis of accounting to measure its operations. Under the modified accrual basis, revenues are recognized when measurable and available. The department previously recorded as revenue the \$9,505 of assigned deposits that will not be released; however, the cash bonds are still recorded as liabilities.

We also found that \$25,000 in Oregon Veteran's Welfare Bonds were double-counted in the \$638,147 recorded as Securities Held in Trust at June 30, 1997. Personnel in the Albany field office provided Portland administrative office personnel with a total dollar amount for assigned deposits. The Portland personnel were unaware that Oregon Veteran's Welfare Bonds totaling \$25,000 were included in the amount provided by the Albany office, and included the \$25,000 a second time for financial reporting purposes.

**We recommend** the department:

- Recognize as revenue the \$37,446 in cash bonds that will not be refunded.
- Correct the Albany field office process for reporting assigned deposits to the Portland administrative office.

***AGENCY RESPONSE:***

*The department has changed the reporting of Trust Funds Payable as recommended by the Oregon Audits Division.*

## **ACCOUNTING FOR FIXED ASSETS**

The department's controls over fixed assets could be strengthened. The *Oregon Accounting Manual* (01 02 00.PO.101) requires state agencies to maintain a system to assure the state's investments in fixed assets are safeguarded and accounted for properly, accurately, and systematically. The *Oregon Accounting Manual* (01 02 00.PO.106) also requires agencies to reconcile their fixed asset subsidiary ledgers to the general ledger at least quarterly.

We reviewed the department's listing of fixed assets and noted that five items disposed of in fiscal year 1997 had not been removed from the department's fixed assets records. Also, the listing had not been updated to reflect the relocation of one fixed asset. Of these six fixed assets, property disposition requests had been prepared for only two items. Additionally, three items disposed of in fiscal year 1998 had not been deleted from the listing as of the date of this report. Finally, the property tags affixed to two printers do not agree with the fixed assets listing.

**We recommend** the department:

- Maintain a complete and accurate subsidiary ledger of fixed assets and reconcile this ledger to the general ledger quarterly.
- Ensure property tags affixed to fixed assets agree with the subsidiary ledger.
- Prepare property disposition requests in a timely manner.

### ***AGENCY RESPONSE:***

*The fixed assets record was accurate in the department's books. We had not as yet assembled a new ending balance list which would agree with the department's books. We had not filled out property disposition requests for three assets; however, we had signed inventory sheets from the responsible parties. We had not completed quarterly reconciliations; however, the department had only two capital purchases the entire fiscal year. To keep this in perspective, we have exactly 23 fixed assets, six of which are trucks. The safeguarding of these assets seems to be little jeopardized by these oversights in an agency our size.*

## **REPORT DISTRIBUTION**

This report is a public record and is intended for the information of the Department of Geology and Mineral Industries' management, the governor of the state of Oregon, the Oregon Legislative Assembly, and all other interested parties.

## **COMMENDATION**

The courtesies and cooperation extended by management and staff of the Department of Geology and Mineral Industries during the course of our audit were very commendable and sincerely appreciated.

## **AUDIT TEAM**

Joel E. Leming, CPA, Audit Administrator  
Craig M. Stroud, CPA  
Jason M. Stanley, CPA  
Anne S. Lawrence, CPA



## CASH RECEIPT FINDINGS BY LOCATION

The following summarizes the cash control weaknesses as they relate to each of the department's offices. The report's audit results section details the cash control weaknesses.

### Cash control weaknesses identified at the Portland administrative office:

- Cash receipts logs are not prepared.
- All checks are not restrictively endorsed upon receipt.
- Cash and checks are deposited approximately twice per month rather than daily.
- All checks are not stored in a locked cabinet or safe until deposit. Checks for subscriptions to and back issues of *Oregon Geology* are kept in a file folder on a staff member's desk until they are entered to a database, approximately twice per month. In fiscal year 1997, 424 checks totaling \$7,650 were received for subscriptions and back issues.
- Keys to locked cabinets containing cash and checks are not adequately safeguarded.
- Duties are not adequately segregated. Only one employee opens the mail. A second employee who has custody of the receipts also records revenues to the accounting system.

### Cash control weaknesses identified at the Albany field office:

- Cash receipts logs are not prepared.
- Cash and checks are not deposited daily. Deposits are made weekly to bi-weekly. Additionally, cash bonds received in Albany from mine operators are mailed to Portland, instead of deposited to an Albany bank. This results in deposit delays and places the receipts at increased risk of loss or theft until deposit. In fiscal year 1997, the Albany field office received three cash bonds totaling \$45,720.
- Cash receipts are not stored in a locked cabinet or safe until deposit. Checks for initial mining permits are placed in a file folder in an accessible and unsecured location until they are processed by the office manager. There were 48 of these checks totaling approximately \$32,400 in fiscal year 1997.
- Keys to locked cabinets containing receipts are not adequately safeguarded.
- Duties are not adequately segregated. Only one employee opens the mail, records receipts for renewals to the accounting system, prepares deposit slips for each deposit, and takes the deposit to the bank. This person also has access to unused mining permits.

### Cash control weaknesses identified at the Grants Pass field office:

- All checks are not restrictively endorsed upon receipt.
- Receipts are deposited weekly rather than on a daily basis.
- All checks are not secured in a locked cabinet or safe until deposit.
- Copies of issued sales receipts are stored in an unlocked desk drawer.
- Duties are not adequately segregated. One staff member collects cash, issues receipts, records the collections, and makes deposits.



## FACTS ABOUT THE SECRETARY OF STATE AUDITS DIVISION

The mission of the Audits Division is to “Protect the Public Interest and Improve Oregon Government.” The Oregon Constitution provides that the Secretary of State shall be, by virtue of his office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

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*Deputy Director*

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This report is intended to promote  
the best possible management of public resources.



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