
Secretary of State

State of Oregon

STATE MARINE BOARD

July 1, 1996, through June 30, 1997



Audits Division

Secretary of State

State of Oregon

STATE MARINE BOARD

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Audits Division



Auditing for a Better Oregon

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

Tom O'Connor, Chairperson
Paul Donheffner, Director
Oregon State Marine Board
435 Commercial Street SE
Salem, Oregon 97310

This audit was performed for the purpose of reporting on the special-purpose financial statements of the State Marine Board (board) as of and for the year ended June 30, 1997. We concluded that the board's financial statements are fairly presented. Our opinion on the financial statements is included in the Financial Section of this report.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

As also required by those standards, we reviewed the board's internal control and compliance with laws and regulations. Our report on the results of those reviews is presented in the Audit Results section of this report.

OREGON AUDITS DIVISION

John N. Lattimer
Director

Fieldwork Completion Date:
May 8, 1998

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SUMMARY

BACKGROUND

The State Marine Board (board) was established in 1959. The board's mission is to promote boating safety through education and marine law enforcement and to promote and assist in the development of boating facilities. The board consists of five members appointed by the Governor to four-year terms. The board appoints a director who is responsible for managing the agency's daily operations.

AUDIT PURPOSE

The audit was conducted for the purpose of reporting on the State Marine Board's special-purpose financial statements for the year ended June 30, 1997, and on internal control and compliance with laws and regulations.

AUDIT RESULTS

This audit concludes that the State Marine Board's special-purpose financial statements for the year ended June 30, 1997, are presented fairly. Our review and evaluation of the board's internal control disclosed no reportable conditions. Our review of compliance with laws and regulations disclosed no material findings.

AGENCY RESPONSE

The Marine Board's management agreed with the conclusions reached during the audit regarding the follow up of prior audit findings, the review of internal control, and tests of compliance.

INTRODUCTION

ORGANIZATION AND FUNCTIONS

The State Marine Board (board) was established in 1959. The board's mission is to promote boating safety through education and marine law enforcement and to promote and assist in the development of boating facilities. The board consists of five members appointed by the Governor to four-year terms. The board appoints a director who is responsible for managing the agency's daily operations.

Under authority of *Oregon Revised Statutes* Chapter 830, the board licenses recreational vessels, establishes statewide boating regulation, promotes uniformity of state and federal boating laws, and advises and funds county and state marine law enforcement. The board promotes safe boating through boating-education courses and youth water-safety programs. The board provides grants to develop and maintain accessible boating facilities and protect water quality. The board's services are funded by motorboat fuel tax revenues, registration fees, and federal grants.

The board employs approximately 30 individuals in the following three programs.

Administration and Education

This program consists of four sections. The Office of the Director provides long-range planning, state boating law administration, rule making, conflict resolution, and personnel management. The Business Section provides all budgeting, accounting, payroll, purchasing, and property control for the board. The largest part of this program, the Vessel Registration Section, provides titling, registration, and licensing services to motorboats, certain sailboats, floating homes, and houseboats. It also licenses outfitters, guides, and ocean charter boats. The Education Section develops and distributes materials to promote safe boating. This program also performs special studies, works as liaison with other government units and interest groups, and coordinates the Adopt-a-River program.

Marine Law Enforcement

This program contracts for local law enforcement services through county sheriff's departments and the Oregon State Police. These services include boat patrol, shore patrol, safety classes, safety lectures, accident investigation, attendance at marine events, and marine officer training.

Boating Facilities

This program provides for the maintenance and improvement of boating facilities statewide. This includes technical assistance and grants to local governments and state agencies for the acquisition, development, and improvement of public boating access and Clean Vessel Act projects. The program also provides engineering, design, and project administration services, including project planning and needs assessments.

FINANCIAL ACTIVITIES

The board's services are funded by three main sources of revenue: 1) motorboat fuel tax revenues, 2) registration fees, and 3) federal grants. The 1995 legislature established expenditure limitations of \$18.3 million for the 1995-97 biennium and the 1997 legislature established expenditure limitations of \$18.5 million for the 1997-99 biennium.

The board uses the Marine Accounting and Registration System (MARS) to record registrations, licenses, temporary permits, and the cash receipts associated with those revenues.

The board uses the Department of Administrative Services' Statewide Financial Management System (SFMS), to record financial transactions and account balances, and to administer federal grants.

**STATUS OF PRIOR
AUDIT FINDINGS**

We followed up on findings from the previous audit for the year ended March 31, 1995, to determine whether the board has taken timely and appropriate corrective actions. Those findings included the need to (1) more closely monitor law enforcement and safety services provided by counties under contract with the board; and (2) establish adequate controls over computer and network policy and security.

The board implemented contract monitoring procedures to compare the amount of activity in specified areas, such as actual patrol time compared to administrative time, between the various counties. The board also added provisions to the contracts to request more time be directed to certain activity areas.

To address the computer and network policy and security control issues, the board hired an Information Systems Manager, and has developed an outline for a computer policy and security manual. The Information Systems Manager has been with the agency for seven months and during that time has significantly upgraded the agency's hardware and software. The policy and security manual is expected to be completed by November 1998.

AUDIT RESULTS



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND
COMPLIANCE BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the special-purpose financial statements of the State Marine Board (board) as of and for the year ended June 30, 1997, and have issued our report thereon dated May 8, 1998.

We conducted our audit in accordance with general accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free from material misstatement.

Internal Control

The management of the board 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 of the special-purpose financial statements of the board for the year ended June 30, 1997, we obtained an understanding of internal control. With respect to the internal control system, we obtained an understanding of the design of relevant controls and whether they have been placed in operation, and we assessed control risk in order to determine

our auditing procedures for the purpose of expressing our opinion on the special-purpose financial statements and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

Our consideration of internal control would not necessarily disclose all matters affecting internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a 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 in amounts that would be material in relation to the special-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting, which we have reported to the board's management.

Compliance

Compliance with laws and regulations applicable to the board is the responsibility of the board's management. As part of obtaining reasonable assurance about whether the special-purpose financial statements are free of material misstatement, we performed tests of the board's compliance with certain provisions of laws and regulations. However, the objective of our audit of the special-purpose financial statements 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*. However, we noted certain immaterial instances of noncompliance, which we reported to the board's management.

OREGON AUDITS DIVISION

Sharron E. Walker, CPA, CFE
Deputy Director

May 8, 1998

REPORT DISTRIBUTION

This report is a public record and is intended for the information of the State Marine Board, the Governor of the State of Oregon, the Oregon Legislative Assembly, and all other interested parties.

COMMENDATION

The courtesies and cooperation extended by the officials and employees of the State Marine Board during the course of our audit were very commendable and sincerely appreciated.

AUDIT TEAM

Dennis Rose, CPA, Audit Administrator
Dale Schneider, CPA
Curt Hartinger

FINANCIAL SECTION



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INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying special-purpose balance sheet of the State Marine Board (board) as of June 30, 1997, and the related special-purpose statement of revenues, expenditures, and changes in fund balance for the year then ended. These financial statements are the responsibility of the board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying special-purpose financial statements were prepared using the presentation method prescribed by the Secretary of State Audits Division for the purpose of complying with Oregon Revised Statutes, 297.210(1), as discussed in the note to the financial statements, and are not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the financial position of the State Marine Board as of June 30, 1997, and the revenues, expenditures, and changes in fund balance for the year then ended, on the basis of accounting described in the Note to the financial statements.

Our audit was conducted for the purpose of forming an opinion on the special-purpose financial statements taken as a whole. The accompanying supplemental information is presented for purposes of additional analysis and is not a required part of the special-purpose financial statements. Such information, except for that portion marked “unaudited,” on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the special-purpose financial statements, and, in our opinion, the information is fairly stated, in all material respects, in relation to the special-purpose financial statements taken as a whole.

A report in accordance with *Government Auditing Standards*, on the State Marine Board’s compliance and internal control over financial reporting, is included in the audit results section of this report.

OREGON AUDITS DIVISION

Sharron E. Walker, CPA, CFE
Deputy Director

May 8, 1998

SPECIAL-PURPOSE FINANCIAL STATEMENTS

STATE OF OREGON
STATE MARINE BOARD

BALANCE SHEET
June 30, 1997

	Account Groups			Total Reporting Entity (Memorandum Only)
	Special Revenue Fund	General Fixed Assets	General Long- Term Debt	
Assets and Other Debits				
Assets:				
Cash on Hand	\$ 70	\$ -	\$ -	\$ 70
Cash on Deposit – State Treasury	3,565,836			3,565,836
Accounts Receivable	1,181,292			1,181,292
Due From Dept. of Transportation	5,521,226			5,521,226
Supply Inventories	568,369			568,369
Prepaid Items	23,053			23,053
Equipment and Machinery		446,659		446,659
Other Debits:				
Provision for Vacation Payable			70,623	70,623
Total Assets and Other Debits	\$ 10,859,846	\$ 446,659	\$ 70,623	\$ 11,377,128
Liabilities, Fund Equity, and Other Credits				
Liabilities:				
Accounts Payable	\$ 2,374,207	\$ -	\$ -	\$ 2,374,207
Due to State Agencies	412,777			412,777
Vacation Payable	23,855		70,623	94,478
Total Liabilities	\$ 2,810,839	\$ -	\$ 70,623	\$ 2,881,462
Fund Equity and Other Credits:				
Investment in Fixed Assets	\$ -	\$ 46,659	\$ -	\$ 46,659
Fund Balance:				
Reserve for Inventory	568,369			568,369
Reserve for Revolving Account	2,570			2,570
Reserves Other	23,053			23,053
Unreserved	7,455,015			7,455,015
Total Fund Equity and Other Credits	\$ 8,049,007	\$ 446,659	\$ -	\$ 8,495,666
Total Liabilities, Fund Equity, and Other Credits	\$ 10,859,846	\$ 446,659	\$ 70,623	\$ 11,377,128

The accompanying note is an integral part of the financial statements.

STATE OF OREGON
STATE MARINE BOARD

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the Year Ended June 30, 1997

		<u>Special Revenue Fund</u>
Revenues:		
	Licenses and Fees	\$ 2,238,799
	Federal Revenue	1,512,610
	Fines and Forfeitures	79,443
	Other Sales Income	5,042
	Other Revenue	<u>10,595</u>
Total Revenues		<u>\$ 3,846,489</u>
Expenditures:		
	Personal Services	\$ 1,272,076
	Services & Supplies	1,207,179
	Capital Outlay	396,849
	Special Payments	<u>7,070,743</u>
Total Expenditures		<u>\$ 9,946,847</u>
Revenues Over (Under) Expenditures		\$ (6,100,358)
Other Financing Sources:		
	Transfers In	<u>5,521,226</u>
Revenue Over (Under) Expenditures, and Other Financing Sources		\$ (579,132)
Fund Balance	Beginning	8,557,720
Change in Reserves		<u>70,419</u>
Fund Balance	Ending	<u><u>\$ 8,049,007</u></u>

The accompanying note is an integral part of the financial statements.

STATE OF OREGON
STATE MARINE BOARD

NOTE TO FINANCIAL STATEMENTS

For The Year Ended June 30, 1997

Summary of Significant Accounting Policies

Reporting Entity

The State Marine Board (board) is a part of the State of Oregon reporting entity. Established in 1959, the board operates under the authority of *Oregon Revised Statutes* 830.005 to 830.490 and is composed of five members appointed by the Governor.

Nature of the Organization

The board titles and registers recreational vessels, establishes statewide boating regulations, promotes uniformity of state and federal boating laws, and advises and funds county and state marine law enforcement. To further promote safe boating, the board publishes brochures and sponsors boating-education courses and youth water-safety programs. The board provides grants to develop and maintain accessible boating facilities and protect water quality. The board also registers guides, outfitters, and charter boat operators.

Financial Statement Presentation

The accompanying financial statements are presented in a manner prescribed by the Secretary of State Audits Division. This presentation is not intended to be, nor is it, in accordance with generally accepted accounting principles, but rather to comply with ORS 297.210(1).

Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. The modified accrual basis of accounting was used in the presentation of these financial statements. Current revenues are recognized when they become measurable and available, and expenditures are recognized when incurred.

SUPPLEMENTAL INFORMATION

STATE OF OREGON
STATE MARINE BOARD

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
— BUDGET TO ACTUAL
July 1, 1995, to June 30, 1997

		1995-97 Budget	1st Year Actuals	2nd Year Actuals	Variance Favorable/ (Unfavorable)
		(Audited)	(Unaudited)	(Audited)	(Unaudited)
Revenues:					
	Licenses and Fees	\$ 4,278,866	\$ 2,346,661	\$ 2,238,799	\$ 306,594
	Federal Revenue	2,977,169	697,658	1,512,610	(766,901)
	Fines and Forfeitures	102,000	70,754	79,443	48,197
	Other Sales Income	0	176	5,042	5,218
	Other Revenue	116,900	10,746	10,595	(95,559)
Total Revenues:		<u>\$ 7,474,935</u>	<u>\$ 3,125,995</u>	<u>\$ 3,846,489</u>	<u>\$ (502,451)</u>
Expenditures:					
	Personal Services	\$ 2,447,905	\$ 1,218,924	\$ 1,272,076	\$ (43,095)
	Services & Supplies	1,972,576	916,136	1,207,179	(150,739)
	Capital Outlay	674,760	199,857	396,849	78,054
	Special Payments	14,200,052	5,437,122	7,070,743	1,692,187
Total Expenditures		<u>\$ 19,295,293</u>	<u>\$ 7,772,039</u>	<u>\$ 9,946,847</u>	<u>\$ 1,576,407</u>
Revenue Over (Under) Expenditures		\$ (11,820,358)	\$(4,646,044)	\$ (6,100,358)	\$ 1,073,956
Other Financing Sources:					
	Transfers In	10,562,624	5,524,757	5,521,226	483,359
Revenue Over (Under) Expenditures, Other Financing Sources		<u>\$ (1,257,734)</u>	<u>\$ 878,713</u>	<u>\$ (579,132)</u>	<u>\$ 1,557,315</u>
Fund Balance	Beginning		7,657,796	8,557,720	
	Change in Reserves		<u>21,211</u>	<u>70,419</u>	
Fund Balance	Ending		<u>\$ 8,557,720</u>	<u>\$ 8,049,007</u>	

AGENCY'S RESPONSE TO THE AUDIT REPORT



Oregon

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7-21-98

John Lattimer, Director
Secretary of State Audit Division
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The State Marine Board has reviewed the draft audit report. We concur with the audit findings regarding matters involving internal control weaknesses reported to Management.

The Board also concurs with the audit findings regarding immaterial instances of noncompliance reported to Management.

The Board has already addressed some of the audit issues with revised policies and procedures, and will develop new policies in order to strengthen controls in our internal control where weaknesses were identified.

Paul Donheffner
Director

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.

DIRECTORY OF KEY OFFICIALS

Director

Deputy Director

Deputy Director

John N. Lattimer

Sharron E. Walker, CPA, CFE

Catherine E. Pollino, CGFM

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



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