
Secretary of State

State of Oregon
**REPORT TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE**

December 3, 1998



Audits Division

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Audits Division

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Auditing for a Better Oregon

Senator Eugene Timms and
Representative Welsh, Co-Chairs,
and Members of the Joint Legislative Audit Committee

Dear Committee Members:

The Oregon Audits Division is pleased to present this report on audits we plan to conduct, audits currently in process, and reports we have issued since the November 19, 1997 Joint Legislative Audit Committee meeting. The report consists of three sections. The first section briefly describes four of the audits we have planned and intend to conduct in 1999. Although this is not an all-inclusive list of the programs and activities we intend to audit, the list does cite those audits we consider of higher priority at this time. The second section includes summaries of the audits we are currently conducting. These audits are presented in order of their anticipated release dates. The third section contains brief summaries of the 48 reports we have issued since the Joint Legislative Audit Committee's November 19, 1997, meeting. At the back of the report is an index sorted by agency name so that audit activity within an agency can be found.

Our goal is to provide the best possible audit services to the state's taxpayers, the governor, the Legislative Assembly, and state agencies. We welcome the committee's review of this report. My staff and I want to be responsive to your audit needs; we are interested in your suggestions for potential audits in all areas of state government. To this end, we are always available to discuss potential audits as well as the results of those audits we have completed. We look forward to working with the committee in the future.

OREGON AUDITS DIVISION

John N. Lattimer
Director

December 3, 1998

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PLANNED AUDITS

The following are four of the more significant audits we plan to start in 1999.

Mental Health and Developmental Disabilities Services Division

The Mental Health and Developmental Disabilities Services Division provides services to prevent or reduce the negative and disabling effects of mental illness and developmental disabilities. This includes people who are involuntarily committed to the division for care. A team of nearly 3,400 employees across the state provides services in a variety of areas: medicine, therapy, social work, and administrative support. This review would begin with an assessment of fiscal and management controls over various department activities; this assessment would determine the scope of subsequent audit work.

Department of Consumer and Business Services

The Department of Consumer and Business Services is the state's largest regulatory agency and administers the state laws and rules governing workers' compensation, occupational health and safety, real estate appraisal activity, building codes, the operation of insurance companies and financial institutions, and securities offerings. This review would begin with an assessment of fiscal and management controls over various department activities; this assessment would determine the scope of subsequent audit work.

Department of Fish and Wildlife

The Department of Fish and Wildlife, working under direction of the fish and wildlife commission, carry out general state programs and policies concerning management and conservation of fish and wildlife resources. The department also operates a variety of facilities designed to enhance fish and wildlife resources, including 34 fish hatcheries, one game farm, numerous wildlife areas, public shooting grounds, hunting and fishing access sites and several research stations. The department's biennial budget is approximately \$173 million. This review would begin with an assessment of fiscal and management controls over various department activities; this assessment would determine the scope of subsequent audit work.

Department of Forestry

The Oregon Department of Forestry is responsible for managing over 11 million acres of state-owned and private forest land. These responsibilities include fire protection, pest detection and control, and a 15 million tree nursery maintenance program. The Forestry Board authorizes a program designed to assure an adequate future wood supply to benefit society, the economy, and the environment. This audit would review and evaluate the department's marketing practices, contracting techniques, and forest management methods used to maximize timber revenues from state forest lands.

AUDITS IN PROCESS

The following are audits we have started but have not yet completed. They are arranged in order of anticipated report release date, with those reports anticipated soonest listed first.

Housing and Community Services Department – Opinion Audit

This is an annual audit conducted for the purpose of reporting on the financial statements of the Housing and Community Services Department's enterprise fund. This audit includes an evaluation of internal controls and compliance with laws and regulations material to the financial statements. The audit encompasses the fiscal year ended June 30, 1998, and is scheduled for release in December 1998.

Oregon Youth Authority – Community-Based Programs

This audit is the third of a multiple-phase review of Oregon's juvenile justice system, as required by Senate Bill 1 enacted during the Legislative Assembly's 1995 session. Following a June 1997 report on safety and security matters and a January 1998 report on treatment and educational services, this audit focuses on community-based programs of the Oregon Youth Authority. The Community Programs section provides supervision, services, and sanctions to juvenile offenders committed by county juvenile courts in lieu of placement in, or transition from, youth correctional facilities. This includes transition and treatment services for juveniles on parole and probation, diversion services for youth on county probation, and specialized alcohol and drug, sex offender, and gang problems. This report is scheduled for release in December 1998.

Oregon State Lottery Commission – Opinion Audit

This is an annual audit reporting on the financial statements of the Oregon State Lottery Commission, including an evaluation of internal controls and compliance with laws and regulations material to the financial statements. This audit is for the period July 1, 1997 to June 30, 1998, and is scheduled for release in December 1998.

Public Employees Retirement System – Opinion Audit

This is an annual audit reporting on the financial statements of the Oregon Public Employees Retirement System, including an evaluation of internal controls and compliance with laws and regulations material to the financial statements. This audit is for the period July 1, 1997, to June 30, 1998, and is scheduled for release in December 1998.

Oregon Resource and Technology Development Fund – Opinion Audit

This is an annual audit, contracted to Pricewaterhouse Coopers, reporting on the financial statements of the Oregon Resource and Technology Development Fund for the years ended June 30, 1998, and 1997. This audit includes an evaluation of internal controls and compliance with laws and regulations material to the financial statements. This audit is scheduled for release in December 1998.

Oregon University System (OUS) – Opinion Audit For the Year Ended June 30, 1998

This is an annual four-part audit of the Oregon University System (OUS). The audit is being performed by the accounting firm of Deloitte and Touche L.L.P. under contract with the Audits Division. The auditor's opinion on OUS's financial statements for the fiscal year ending June 30, 1998, is scheduled for release in December 1998. Related reports, also for the fiscal year ending June 30, 1998, on the OUS's schedule of expenditures of federal awards, internal controls, and compliance with laws and regulations are also scheduled for release in December 1998.

Department of Human Resources – Computer Center General Controls Review

This audit includes an evaluation of general computer controls in place at the Department of Human Resources data center. It includes a review of procedures relating to physical security, access, backup, contingency planning, and other organizational responsibilities. The audit also includes an evaluation of the status of recommendations from our previous audit and an evaluation of the data center's efforts to ensure year 2000 compliance. The audit is scheduled for release in December 1998.

Senate Bill 546 Boards

Senate Bill 546, enacted by the 69th Legislative Assembly during the 1997 regular session, established a pilot program granting semi-independent status to five boards. These boards include the State Board of Architect Examiners, the State Landscape Architect Board, the State Board of Examiners for Engineering and Land Surveying, the State Board of Geologist Examiners, and the Oregon Board of Optometry. Senate Bill 546 included a provision that financial statement audits of each board be conducted. The Audits Division has contracted with an independent accounting firm, Merina, McCoy & Co., to conduct these audits for the fiscal year ended June 30, 1998. The reports are scheduled for release in January 1999.

Children's Trust Fund of Oregon – Opinion Audit

This is an annual audit reporting on the financial statements of the Children's Trust Fund of Oregon, including an evaluation of internal controls and compliance with laws and regulations material to the financial statements. This audit is for the period July 1, 1997, to June 30, 1998, and is scheduled for release in January 1999.

Department of Veterans' Affairs – Opinion Audit

This is an annual audit reporting on the financial statements of the Department of Veterans' Affairs, including an evaluation of internal controls and compliance with laws and regulations material to the financial statements. This audit is for the period July 1, 1997, to June 30, 1998, and is scheduled for release in January 1999.

Statewide Financial Management System – Applications Controls

The Statewide Financial Management System (SFMS) is designed to provide centralized accounting and purchasing services for state agencies. In 1995, at the request of the Department of Administrative Services, we contracted for a post-implementation review of the system to determine if it had adequate controls over transaction processing. This audit follows up on the findings noted in that report (number 95-26). In addition, this audit assesses risk of the controls built into the system and performs tests of selected critical controls. This report is scheduled for release in February 1999.

Oregon Parks and Recreation Department

Oregon's state parks are among the most popular in the United States. Combined day use and camping attendance estimated at 40 million visitors per year consistently ranks Oregon's park system among the 10 most visited in the nation. This audit will evaluate fiscal and management controls over various Parks and Recreation activities, such as attendance monitoring, fee collections, fee pricing, procurement, facilities management, and seasonal staffing. The report is scheduled for release in February 1999.

Office of Medical Assistance Programs – Hospitals

The Oregon Health Plan provides medical coverage to more than 350,000 low-income persons who are aged, blind, disabled, or are members of families with dependent children. During calendar years 1994 and 1995, the health plan paid approximately \$245 million for inpatient hospital services and another \$77 million for outpatient hospital services. The Office of Medical Assistance Programs (OMAP) is responsible for ensuring that payments made to hospitals are reasonable by conducting post payment reviews of selected hospitals each year. According to OMAP auditors, post payment reviews of hospitals have not been conducted in recent memory. This audit is a review of whether payments made by OMAP to hospitals are reasonable and appropriate. This report is scheduled for release in February 1999.

Oregon State Scholarship Commission – Opinion Audit for the Year Ended December 31, 1998

This is the annual financial statement audit of the Oregon State Scholarship Commission. The audit report will include the independent accountant's report on the commission's financial statements for the year ending December 31, 1998. The audit report will also include a report on the commission's internal controls and a report on the commission's compliance with laws and regulations. The report is scheduled for release in February 1999.

Columbia River Gorge Commission – Interstate Cooperative Agreement with Washington State Office of State Auditor

This audit is performed jointly with the Washington State Office of State Auditor. The audit is conducted in accordance with the provisions of the Interstate Cooperative Agreement for the Columbia River Gorge Commission Audit. The Washington state auditors will serve as the principal auditors. The Oregon Audits Division will perform procedures to audit the commission's Oregon transactions for appropriateness and for compliance with laws and regulations. As required by the agreement, the Washington state auditors will audit the commission's Washington transactions. They will also have primary responsibility for preparing and issuing the audit reports which include an independent accountant's report on the commission's financial statements for the year ended June 30, 1998, a report on internal control, and a report on compliance with state laws and regulations. The Oregon Audits Division will issue these reports as a matter of public information for the taxpayers of Oregon. The Washington state auditors will issue the reports for public use in the state of Washington. The reports are expected to be released in March 1999.

1998 Statewide Audit

This annual audit of the state of Oregon is conducted in compliance with the Single Audit Act. Our opinion on the state's general-purpose financial statements, which will be issued in *Comprehensive Annual Financial Report*. The related reports on the state's schedule of expenditures of federal awards, internal controls, and compliance with laws and regulations are scheduled for release in April 1999.

Oregon University System

The Oregon University System consists of seven universities under the control of the governor-appointed State Board of Higher Education. Enrollment in these institutions totaled approximately 96,000 during the 1995-96 academic year. Approximately 25 percent of the system's budget has come from the state's general fund, while sales and services, federal funds and grants, tuition and fees, donations, lottery revenues, and other miscellaneous sources have generated the remainder. This review will begin with an assessment of fiscal and management controls at one or more of the state university campuses. This assessment, to be completed in early 1999, will determine the scope of subsequent audit work.

REPORTS ISSUED SINCE NOVEMBER 19, 1997

The following are brief summaries of the audit reports we have issued since the November 19, 1997, meeting of the Joint Legislative Audit Committee. The reports are arranged in sequential order by report number.

97-82 Water Resources Department – Water Development Loan Program – Special Review

The Water Development Loan Program, enacted by the 1977 Legislative Assembly to finance long-term, low interest loans for irrigation and drainage projects in Oregon, is administered by the Water Resources Department. The program has been the subject of a class action lawsuit since 1991. As a result of a preliminary settlement reached on January 25, 1996, the court placed a temporary moratorium on all collection procedures and ordered that all loan balances be recalculated and that the program refund any overpayments and pay attorney fees. This audit for the period July 1, 1995, to June 30, 1996, found that procedures used to record loan account transactions in the accounting records did not properly reflect the amount of principal and interest being received even though they were correctly recorded in subsidiary records. Also, we noted that \$252,735 in administrative expenditures were not correctly recorded in the account for administrative costs, and that an error in recalculation of loan balances found during a previous audit had not been corrected.

97-83 Department of Human Resources – Medicaid Management Information System Review

The Medicaid Management Information System (MMIS) is the federally mandated computer system to automate Medicaid claims payment. During fiscal year 1995-96, approximately 14 million claims totaling \$1.3 billion were paid through the MMIS. This audit found that specific MMIS controls have been insufficient to ensure appropriate payment of claims. From our limited testing of claims processed through the MMIS during fiscal year 1995-96, we identified control weaknesses that resulted in overpayments to providers totaling approximately \$1.3 million. These errors included \$420,000 that the Office of Medical Assistance Programs inadvertently paid to insure Oregon Health Plan clients who had previously died. In addition, the MMIS allowed \$800,000 in overpayments because its controls to limit payments to designated service levels did not function as intended. Furthermore, the Office of Information Systems has been unable to keep up with a growing backlog of MMIS system change requests or to provide necessary system support. As a result, known system errors have gone unresolved for extended periods and cost-effective projects have been inappropriately delayed. The Department of Human Resources has responded to these findings by developing an action plan to correct identified weaknesses and recover overpayments.

97-84 Appointments to State Service

The state of Oregon employs approximately 32,800 persons with an annual payroll exceeding \$1.3 billion. During fiscal year 1995-96 the state filled approximately 9,000 vacant positions. Under ORS 240.306 the recruiting, selecting, and promoting of most state employees must be competitive and based on qualified applicants' relative ability, knowledge, experience, and skills. This audit found that, although most vacancies were properly announced, the selection process usually competitive, and almost all of the persons appointed met or exceeded the minimum qualifications established for the position, enough exceptions occurred to show a need for consistent and reliable procedures to verify applicants' education and work experience claims. Several agencies did not have consistent employment testing procedures for assessing applicants' ability to perform the work. At least one key law, rule, policy, or contract provision was not followed in 14 (16.7 percent) of the 84 appointments sampled, with the most prevalent problem lack of required documentation supporting the hiring process. The state lacks effective procedures to ensure that direct (noncompetitive) appointments, most often used in filling management positions, remain exceptions to the state's standard method of filling positions through competitive recruitment. This audit found that the amount of time taken to fill vacant professional-level positions averages more than 14 weeks, and that some seasonal positions are being filled in a manner not allowed by the statutes, i.e. by individuals continuously occupying the same positions for years.

97-85 SAIF Corporation Opinion Audit for the Year Ended December 31, 1996

This audit performed by the accounting firm KPMG Peat Marwick under contract with the Audits Division covers the year ending December 31, 1996. This audit concluded that SAIF's financial statements were fairly presented. No material weaknesses were noted in SAIF's internal control structure and tests disclosed no instances of noncompliance with applicable laws and regulations.

97-86 Oregon State Lottery Commission Opinion Audit for the Year Ended June 30, 1997

This audit covers the fiscal year ended June 30, 1997. This audit concluded that the Lottery's financial statements were fairly presented. No material weaknesses were noted in the Lottery's internal control structure and tests disclosed no instances of noncompliance with applicable laws and regulations.

97-87 Oregon Comprehensive Annual Financial Report for the Year Ended June 30, 1997

This audit concluded that the financial statements of the state of Oregon, as of and for the year ended June 30, 1997, were presented fairly in all material respects. This report is one of four reports required by the Single Audit Act of 1984. The other three reports required by the act are issued separately and will be combined in a future report.

97-88 Oregon Housing and Community Services Department Opinion Audit for the Year Ended June 30, 1997

This audit covers the fiscal year ended June 30, 1997. This audit concluded that the combined financial statements for the Oregon Housing and Community Service Department's enterprise funds were fairly presented. No material weaknesses were noted in the department's internal control structure and tests disclosed no instances of noncompliance with applicable laws and regulations.

97-89 Department of Veterans' Affairs Opinion Audit for the Year Ended June 30, 1997

This audit covers the fiscal year ended June 30, 1997. This audit concluded that the Department of Veterans' Affairs' financial statements were fairly presented. No material weaknesses were noted in the department's internal control structure and tests disclosed no instances of noncompliance with applicable laws and regulations.

98-01 Oregon Resource and Technology Development Fund Opinion Audit for the Years Ended June 30, 1997 and 1996

This audit performed by the accounting firm Coopers & Lybrand L.L.P. under contract with the Audits Division covers the years ended June 30, 1997, and 1996. This audit concluded that the fund's financial statements were fairly presented. No material weaknesses were noted in the fund's internal control structure and tests disclosed no instances of noncompliance with applicable laws and regulations.

98-02 Department of Transportation – Special Review – Change of Director

This audit was performed on the Oregon Department of Transportation for the purpose of complying with ORS 297.210(2), which requires an audit when an executive head leaves his or her agency. On December 31, 1995, the director of the department left his position. This review included testing payroll, expense, and asset transactions directly subject to the control of the director during the period July 1, 1995, through December 31, 1995. This audit found that the department could strengthen its controls related to reimbursing employees for out-of-state travel. This audit found several instances in which employees were reimbursed and the documentation to support the claim was not sufficient to determine whether the claim should be paid.

98-03 Oregon State System of Higher Education – Opinion Audit for the Year Ended June 30, 1997

This audit performed by the accounting firm of Deloitte and Touche L.L.P. under contract with the Audits Division covers the fiscal year ended June 30, 1997. This audit concluded that the financial statements were fairly presented. The audit also reviewed OSSHE's

internal control structure, legal compliance, and federal financial assistance and includes OSSHE's response to the schedule of findings and questioned costs.

98-04 Public Employees Retirement System – Opinion Audit for the Year Ended June 30, 1997

This audit was conducted for the purpose of reporting on PERS' financial statements for the year ended June 30, 1997, and on its internal controls and compliance with applicable laws and regulations. This audit concluded that PERS' financial statements for the year ended June 30, 1997, which are included in this report, are fairly presented. No material weaknesses were noted in PERS' internal control structure and tests disclosed no instances of noncompliance with applicable laws and regulations.

98-05 Oregon Youth Authority-Youth Correctional Facilities Education and Treatment Programs

This audit is the second of a multiple-part review of the system as required by Senate Bill 1. This audit focused on treatment and educational programs at the MacLaren and Hillcrest youth correctional facilities and centered around the following issues: whether admitted youths are appropriately evaluated for their treatment and educational needs; whether youth correctional facilities have suitable quality assurance systems to assess and improve operations on an ongoing basis; and whether OYA uses information about paroled juveniles to evaluate the effectiveness of its current treatment programs and promote management accountability. The audit found that OYA is not in full compliance with Senate Bill 1 requirements, and opportunities exist to strengthen the intake assessment and treatment planning process. Also, OYA's youth correctional facilities lack an organized approach for re-evaluation and reassessment of their programs to promote quality and innovation. Finally, OYA has not produced a legislatively mandated report on recidivism, as required by Senate Bill 1, and has not established a systematic approach for tracking information about paroled juvenile offenders and relating post-release behaviors to services provided within youth correctional facilities. OYA is in the process of developing a new Juvenile Justice Information System (JJIS) and has plans to develop an analysis tool for this system, however work on this component of the system is not scheduled to begin until late in 1998.

98-06 Oregon State Fair And Exposition Center – Special Review

This audit was performed to review financial-related concerns expressed by the 1997 budget committee. On September 10, 1997, the Joint Legislative Audit Committee approved the proposed plan developed by the Audits Division, the Legislative Fiscal Office, and the Department of Administrative Services. This report contains the results of the Audits Division's work only; a joint report was issued by the Legislative Fiscal Office. Our objectives were to audit the fair's financial structures put in place for expenditures, revenues, and bonds; budget structure; internal control over transactions and significant events; management controls in place for contracting, licensing, staffing, and payroll

activities; and compliance with applicable statutes and rules. The audit found the fair did not comply with two bond requirements and can improve some management controls and procedures. Also, the fair did not comply with Oregon Revised Statute, Chapter 286, Section 135, which requires the fair to have an annual audit of its bond program or obtain an exemption from the Department of Administrative Services from this requirement.

98-07 Senior and Disabled Services Division – Facility Abuse Complaint Investigations, Estate Administration, and Adult Foster Home Licensing

This audit found that the Department of Human Resources Senior and Disabled Services Division (division) can improve its processes to ensure that local offices comply with the laws and administrative rules for performing AFH inspections and issuing AFH licenses. We determined Oregon criminal records checks were correctly performed for 87 percent of sampled AFH providers, resident managers, and non-client residents. Our results indicate the division could improve its performance of national records checks. Further, while most sampled AFH inspections were conducted in a timely manner, 21 percent of the homes with noted deficiencies were not given a time frame for correction, 69 percent with deficiencies were issued a license prior to follow up, and 29 percent of those deficiencies were never confirmed as corrected. Finally, we found that the division generally ensures AFH providers and resident managers complete a basic training course prior to licensing. The division did not ensure provider and resident manager training requirements were met for nine percent of the individuals sampled. In the area of facility abuse complaint investigations, we found that the division does not always ensure that critical timelines are met. We also determined that the division could increase recoveries of cash funds from the bank and nursing home accounts of deceased public assistance recipients by \$400,000 annually if the division received timely notification of client deaths. In addition, we identified more than \$255,000 of abandoned funds recoverable by the division from the Division of State Lands — Abandoned Property section. Finally, we determined the division effectively stops payments to non-medical community-based care providers when public assistance clients die.

**98-08A &
98-08B Joint Feasibility Study Of Consolidation Of Highway and Road Maintenance Between Jackson County Roads and Parks Services and Oregon Department of Transportation Maintenance District 8**

Oregon Revised Statute (ORS) 366.770 gives ODOT the authority to enter into cooperative agreements with counties for maintenance of state highways. ORS 366.775 gives ODOT the authority to enter into agreements for maintenance of any public road. Together, these statutes provide the authority to enter into intergovernmental agreements in which either agency maintains the roads of the other, or performs related functions on the other's roads. This authority is the basis for the partnership agreements that have been entered into between ODOT and Jackson County. Since 1994, Jackson County and ODOT-District 8 have formally "partnered" in their road maintenance functions and recently proposed moving beyond partnering to a "merger" that would create one road maintenance

organization in the local area. This would reduce the duplication of facilities and equipment required to manage the two separate systems. The objective of this study was to determine the feasibility of consolidating the two highway and road maintenance organizations under Jackson County. This study documents the extent of the partnership efforts to date; explores additional opportunities for increased partnerships; estimates future financial benefits and costs (or increased or decreased levels of service) expected from the proposed merger; and assesses information and recommendations pertaining to potential obstacles or barriers to the proposed merger. The study concludes that savings will start to accrue immediately with either partnering or merger. Over 10 years, a merger would bring savings of \$4.7 million in today's dollars, compared with a savings of \$1.9 million in the same period if the two agencies expand their partnering.

98-09 State Board of Massage Technicians – Change of Director

We conducted a limited review of the State Board of Massage Technicians (board) for the purpose of complying with Oregon Revised Statute (ORS) 297.210(2), which requires the Secretary of State to review a state agency when the executive head leaves his or her position. The board establishes massage standards, conducts licensing examinations, issues licenses, and investigates alleged violations of the board's rules and regulations. Effective July 17, 1997, the board removed the executive director and appointed the new director effective July 21, 1997. Our review was limited to specific areas for the period July 1, 1996, through July 31, 1997. The audit found that the board's remaining 1995-1997 biennium funds were not adequate to pay the outstanding invoices. It also appeared that some of the funds that were granted by the legislative Emergency Board to pay for additional exam requirements were spent by the board to cover other costs such as expendable property, personal services, and office costs. The audit recommended the board obtain reports comparing biennial expenditures to budget on a quarterly or semi-annual basis to allow the board additional oversight of the financial activities and provide information on the use of the board's limited funds.

98-10 Department of Revenue – Property Tax Exemptions

Recent ballot measures passed by Oregon citizens have placed limits on property tax rates and on overall property taxes collectible. As a result, programs supported by property taxes could experience a loss of funds when property that should be taxed is not included on the tax rolls. The purpose of this audit was to determine whether systems are in place to best ensure that only eligible property is exempted from taxation. The audit found that not all property that should be taxed is included on the tax rolls: 25 of 62 enterprise zone exemptions (40 percent) and 16 of 92 fraternal and charitable organizations (17 percent) did not meet all of the statutory and rule requirements for exemption. Failing to meet any one of the requirements is grounds for disqualification from exemption under the statutes and rules in effect during our audit period. These 41 exemptions removed more than \$19.2 million from the tax rolls. For the 1995-96 tax year, we estimate that, in total, properties valued at \$147.2 million received a fraternal, charitable, or enterprise zone property tax exemption even though they did not meet all of the requirements. As a result,

we estimate that local governments lost approximately \$381,000 and the state and other taxpayers paid an additional \$1.69 million that would have been collected from these property owners. We recommended the department use its rule making and oversight authority to assist the counties in developing and implementing policies and procedures to better ensure that only those properties that qualify for exemption are exempt from taxation. In addition, we recommended that the Oregon Legislative Assembly review exemption programs for their relevance in today's economic environment.

98-11 Columbia River Gorge Commission – Interstate Cooperative Agreement with Washington State Office of State Auditor

This audit is performed jointly with the Washington State Office of State Auditor pursuant to the Interstate Cooperative Agreement for the Columbia River Gorge Commission Audit. The Washington State Auditor's office was the principal auditor. We performed our auditing procedures in accordance with generally accepted government auditing standards, auditing Oregon expenditures for appropriateness and for compliance with laws and regulations of the state of Oregon. As required by the interstate agreement, the Washington State Auditor's office performed an audit of the Columbia River Gorge Commission and prepared Independent Auditor Reports on the financial statements and on compliance with state laws and regulations as of and for the year ended June 30, 1997. The Oregon Audits Division is issuing these reports as a matter of public information for the taxpayers of Oregon. Likewise, the Washington State Auditor's office has issued the reports for public use in the state of Washington.

98-12 Department of Revenue – General and Personal Income Tax Application Controls

This audit was conducted to follow up on the findings reported in the 1995 audit of the Information System General and Application Controls at the Department of Revenue (department). Our review covered the general controls intended to protect the environment in which software applications process data, including physical security of the data center, access controls and the controls over developing and modifying applications. Our audit noted that the department has made several improvements to off-site storage, access controls, and physical security since our previous audit. We found, however, that further improvements can be made in the areas of disaster recovery, access controls, program change controls, and monitoring.

98-13 Oregon Economic Development Department: Water Fund – Opinion Audit for the Year Ended June 30, 1997

The audit was conducted for the purpose of reporting on the financial statements of the Water Fund (fund) for the year ended June 30, 1997, and on the fund's internal controls and compliance with applicable laws and regulations. The fund, financed through lottery proceeds and revenue bond sales, was established to finance the construction and improvement of public drinking water systems and public wastewater collection systems.

This audit concluded that the Water Fund's financial statements for the year ended June 30, 1997, are fairly presented. Additionally, we noted no matters involving internal controls or instances of noncompliance that were required to be reported.

98-14 Oregon Economic Development Department: Special Public Works Fund – Opinion Audit for the Year Ended June 30, 1997

The audit was conducted for the purpose of reporting on the financial statements of the Special Public Works Fund (fund) for the year ended June 30, 1997, and on the fund's internal controls and compliance with applicable laws and regulations. The fund, financed through lottery proceeds and the sale of revenue bonds, was established to make loans and grants to local governments and districts to support industrial and commercial development. This audit concluded that the fund's financial statements for the year ended June 30, 1997, are fairly presented. Additionally, we noted no matters involving internal controls or instances of noncompliance that were required to be reported.

98-15 Professional Liability Fund — Opinion Audit for the Years Ended December 31, 1997 and 1996

The audit was conducted for the purpose of reporting on the financial statements of the Professional Liability Fund (PLF) for the years ended December 31, 1997, and 1996, and on the PLF's internal controls and compliance with applicable laws and regulations. The PLF, financed through member assessments and investment earnings, provides mandatory basic and optional excess legal malpractice insurance for all Oregon attorneys engaged in private practice. This audit concluded that the PLF's financial statements for the years ended December 31, 1997, and 1996, are fairly presented. Additionally, we noted no matters involving internal controls or instances of noncompliance that were required to be reported.

98-16 Office of Energy: Small Scale Energy Loan Program — Opinion Audit for the Years Ended June 30, 1997 and 1996

The audit was conducted for the purpose of reporting on the financial statements of the Office of Energy's Small Scale Energy Loan Program (SELP) for the years ended June 30, 1997, and 1996, and on SELP's internal controls and compliance with applicable laws and regulations. The program was established to assist individuals, businesses, organizations, local governments, and state agencies in financing energy conservation and renewable resource energy projects. This audit concluded that the program's financial statements for the year ended June 30, 1997, and 1996, are fairly presented. Additionally, we noted no instances of noncompliance that were required to be reported. We did note certain accounting and financial reporting control matters, however, that we consider to be reportable conditions. We identified errors in which transactions and adjustments were recorded in the wrong period, or were not recorded altogether. In addition, program accountants have not been preparing cash reconciliations due to difficulties after conversion to a new accounting system.

98-17 Department of Transportation: Oregon Transportation Infrastructure Bank — Opinion Audit for the Year Ended June 30, 1997

The audit was conducted for the purpose of reporting on the financial statements of the Oregon Transportation Infrastructure Bank (OTIB) for the year ended June 30, 1997, and on OTIB's internal controls and compliance with applicable laws and regulations. The OTIB is a new program that was established as part of a federal pilot project to assist local governments and state agencies finance various transportation projects. The audit concluded that the OTIB's financial statements for the year ended June 30, 1997, and 1996, are fairly presented. Additionally, we noted no matters involving internal controls or instances of noncompliance that were required to be reported.

98-18 Commission for Women – Change of Director Special Review for the Period May 1, 1997 through January 31, 1998

We conducted a limited review of the Commission for Women (commission) for the purpose of complying with Oregon Revised Statute (ORS) 297.210(2), which requires the Secretary of State to review a state agency when the executive head leaves his or her position. The commission was established to work for women's equality through advocacy and legislation. On June 30, 1997, and January 16, 1998, the commission had two changes of director. Our review was limited to performing specific procedures for the period May 1, 1997, through January 31, 1998. The procedures did not disclose any noncompliance with laws and regulations; however, we did note a weakness in internal control concerning the processing of cash receipts. We found that sales and remaining inventory were not properly tracked and reconciled with cash receipts for event tickets and literature sold by the commission.

98-19 Department of Human Resources: State Office for Services to Children and Families and Mental Health and Developmental Disabilities Services Division — Investigation of Seiders Enterprises, Inc.

Seiders Enterprises Inc. (Seiders) received public funds for providing residential treatment services and mental health therapy to children with special needs. The residential services included both group home and foster home settings for children under the oversight of the State Office for Services to Children and Families (SCF) within the Department of Human Resources. Mental health therapy services were paid by a Medicaid program administered by the Mental Health and Developmentally Disability Services Division (MHDDSD) within the same department. After reviewing available financial and client records for the period of January 1995 through March 1996, we referred several matters to the State Police involving Seiders' billing of unsubstantiated or unallowable services to the state agencies. We also provided this information to the Department of Justice, Medicaid Fraud Unit. In addition, we identified issues related to state agency oversight for the program. These issues include lack of follow up on a 1994 MHDDSD Medicaid audit, which identified a 33 percent error rate when comparing billed therapy to the clients' treatment plans, and the department's not stopping payments to Seiders after the investigation began. Furthermore,

there is not a centralized data source for funding paid to each child cared for within the state. Contracts had to be obtained from various caseworkers around the state who were responsible for the children in Seiders' care. Having multiple, separate contracts for some of the children results in paying for what sometimes appears to be duplicative services. Also, we identified a potential conflict of interest when an SCF employee who was assigned to serve as a liaison to Seiders arranged for his wife to provide bookkeeping services to the company. This matter has been referred to the Government Standards and Practices Commission for its review of potential personal gain through official position. Our report included recommendations to improve SCF's and MHDDSD's monitoring of state program expenditures. Further recommendations directed at SCF are included to reduce the risk of conflicts of interest occurring.

98-20 Department of Transportation — Rogue Valley Transportation District Special Review

Through its Government Waste Hotline, the Audits Division received allegations of contract mismanagement and of possible use of public resources by officials of the Rogue Valley Transportation District (RVTD) for personal gain. The primary purpose of this audit was to determine the validity of the allegations and the extent of the possible loss of state-provided funds. The audit found several instances in which key officials from RVTD entered into transactions that may have resulted in personal gain. We found that in 1994, the senior planner selected a contractor represented by the planner's wife. Also in 1994, the senior planner paid for editing services to a business that was owned by his wife. In 1993, the senior planner used RVTD equipment and work time to provide services for the former general manager's campaign for a position on the Medford City Council. These matters have all been referred to the Government Standards and Practices Commission for review. We recommended that the Department of Transportation (ODOT) incorporate in its assurances and certifications obtained from local agencies agreement to comply with Oregon Revised Statutes Chapter 244. This law prohibits public officials and employees from using their official offices for personal gain. We also recommended that ODOT review questioned amounts paid to contractors by RVTD, which total approximately \$16,000, and consult with legal counsel regarding initiating action to recover amounts determined unallowable or inappropriate. ODOT also should assist RVTD in establishing appropriate procedures to ensure better management of state-funded programs.

98-21 Department of Consumer and Business Services – Change of Director Audit

We conducted a limited review of the Department of Consumer and Business Services (department) for the purpose of complying with Oregon Revised Statute (ORS) 297.210(2). This law requires the Secretary of State to perform an audit or review of a state agency when the executive head leaves his or her position. The director of the department resigned his position effective February 6, 1998. Our audit was limited to determining whether appropriate separation actions were taken upon the director's leaving. We found that all appropriate actions had been taken, and identified no instances of noncompliance with laws, rules, or regulations.

98-22 Oregon State Scholarship Commission — Opinion Audit for the Year Ended December 31, 1997

The audit was conducted for the purpose of reporting on the financial statements of the Oregon State Scholarship Commission (commission) for the year ended June 30, 1997, and on the commission's internal controls and compliance with applicable laws and regulations. This audit concluded that the commission's financial statements for the year ended June 30, 1997 are fairly presented. Additionally, we noted no instances of noncompliance that were required to be reported. Our audit did note certain internal control matters, however, that we consider to be reportable conditions. These reportable conditions were related to cash handling and cash accounting, including a lack of segregation of duties and insufficient management review of cash reconciliations.

98-23 Federal Compliance Report and Internal Control Report for the Year Ending June 30, 1997

This statewide audit was conducted in accordance with the Single Audit Act of 1984, *Government Auditing Standards*, and Office of Management and Budget Circular A-128. The statewide audit has four main components: an audit of the general-purpose financial statements, an audit to determine compliance with laws and regulations, a review of the internal controls used in administering state and federal funds, and a Schedule of Federal Financial Assistance. This report contains three of the four components. The first is an opinion on the schedule, which is supplemental to the state's general-purpose financial statements. The schedule, which is also included in the report, summarizes federal expenditures made by the state of Oregon for the year ended June 30, 1997. The second is a report on the state of Oregon's compliance with laws and regulations, including those related to administering federal programs. A schedule describing identified instances of noncompliance and questioned costs accompanies this report. The third is a report on the study and evaluation of internal control established and maintained by the state of Oregon. A schedule describing conditions affecting internal control accompanies this report. Further material, uncorrected prior audit findings were included in this audit report.

98-24 Oregon Department of Transportation: Highway Construction

This report is one of five projects approved by the Joint Legislative Audit Committee in September and November 1997 in response to an audit survey summarizing views and concerns of Oregon Department of Transportation (ODOT) stakeholders. This audit reviews ODOT's highway construction contract award process and project management. A wide variety of projects, including pavement resurfacing, bridge repairs, road widening and realignment, and building new interchanges and overpasses, are handled by contracting. During the 1995-97 biennium, ODOT awarded 295 contracts, and 236 highway construction projects were completed in that same time period. The total amount of contracts awarded was \$354 million, with a total of \$378 million paid to the contractors. The report (1) emphasizes the importance of avoiding cost increases that do not add value to a project; (2) recommends that ODOT begin recording the causes of contract cost

increases; and (3) calls for ODOT to consider contractors' past performance before awarding highway construction contracts. ODOT should also consider using its prequalification process to establish contractors' capacity limits for performing highway construction.

98-25 Oregon Department of Transportation: Sources and Uses of Highway Funds

This informational report, one of the five projects approved by the Joint Legislative Audit Committee, provides high-level information on the Oregon Department of Transportation's (ODOT) sources and uses of state funds for highway-related purposes. The report highlights three conditions. First, since 1993 the overall physical condition of state highway system pavements has declined somewhat, despite an 894-mile increase in the number of miles put into "very good" condition. Second, although State Highway Fund collections increased over the last three biennia, the portion available for state and local highway programs declined. Much of the decline was due to increased collection costs, Driver and Motor Vehicle Services (DMV) and other ODOT program expenses, and statutorily mandated revenue transfers to other programs. Third, over the last three biennia, ODOT expenditures of state and federal highway money increased by approximately \$264 million (29 percent). Highway construction and maintenance together accounted for most of this increase (\$207 million), followed by expenditures for administration and overhead (\$45 million). The portion of total expenditures for highway construction (46 percent) and administration and overhead (16.5 percent) were virtually the same over the three biennia.

98-26 Department of Corrections — Prison Construction: Infrastructure Planning and Development

This audit is the first in a series of reviews of the Department of Corrections prison construction program. The primary purpose of this audit was to identify and recommend ways for the department to improve its processes for planning and developing infrastructure needed to serve new prisons. The department is in the early stages of a \$1 billion construction program and can improve its infrastructure planning and development practices. As of December 31, 1997, the department had not completed infrastructure development for any of the prisons it is building or planning to build, including one facility that was more than 85 percent completed. A recently enacted law and a department reorganization should improve infrastructure planning and development for prisons. In general, the department agreed to many of the recommendations listed in the audit and took actions to ensure that the necessary planning was accomplished and infrastructure in place for new or expanded prisons prior to occupancy. The immediate need to expand the Snake River Correctional Institution to accommodate the growing offender population did not allow for a lengthy planning process.

98-27 Oregon State Bar for the Two-Year Period Ended December 31, 1997

This audit was conducted for the purpose of reporting on the financial statements of the Oregon State Bar Fund for the two-year period ending December 31, 1997, and on the bar's internal controls and compliance with applicable laws and corporation bylaws. The audit resulted in an unqualified opinion, which is a conclusion that the financial statements taken as a whole are presented fairly. No material weaknesses were noted in the Bar's internal control structure and tests disclosed no instances of noncompliance with applicable laws and regulations.

98-28 Driver and Motor Vehicle Services: A Limited Review of Cash Handling at Selected Field Offices

This audit evaluates cash handling practices and procedures at selected Driver and Motor Vehicle Services (DMV) field locations. The audit was limited to the daily balancing and deposit preparation process as it occurs in the field offices selected for review. It included a limited review of the management of access to those DMV systems involved in the daily balancing and deposit preparation process. During the fiscal year July 1, 1996 through June 30, 1997, DMV offices collected more than \$125 million from license fees paid by drivers and motor vehicle owners. Each year, DMV processes approximately 750,000 driver licenses, 1.5 million vehicle licenses and 1 million vehicle titles. The approximately 70 DMV field offices statewide process about 63 percent of all driver license renewals and 44 percent of all vehicle registration renewals. The audit revealed areas of significant risk. Improvements are needed in physical controls over cash, daily balancing procedures, and controls over access to DMV's information systems. In addition, the fact that some DMV field office employees concurrently work for automobile dealers may present a real or perceived conflict of interest, because these people are employed by an industry DMV regulates.

98-29 Department of Geology and Mineral Industries July 1, 1996 to June 30, 1997

The objectives of this audit were to determine whether the Department of Geology and Mineral Industries had 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. The audit 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.

98-30 Department of Corrections — Prison Construction Procurement and Contract Development

This audit is the second in a series of reviews of a major prison construction program at the Department of Corrections. The purposes of the audit were to review the selection

methodology used by the department in procuring services of the construction manager/general contractor (CM/GC), architect, project management, and materials testing firms, and to perform a review of the department's contract development practices involving these four firms. The report presents findings, conclusions, and specific recommendations for improvement in the department's processes for contractor selection, decision documentation, and determination of contract cost; and in its establishment of cost limits and its control over contract amendments.

98-31 State Marine Board July 1, 1996 through June 30, 1997

This audit was conducted for the purpose of reporting on the special-purpose financial statements of the State Marine Board for the year ended June 30, 1997, and on internal control and compliance with laws and regulations. The report concludes that the financial statements are presented fairly. No material weaknesses were noted in the board's internal control structure and tests disclosed no instances of noncompliance with applicable laws and regulations.

98-32 Oregon Department of Transportation — Local Agencies' Use of Highway Funds

This audit was performed jointly by the accounting firms of Talbot, Korvola & Warwick, LLP and Coopers & Lybrand LLP, under contract with the Audits Division. The objectives of this audit included (1) assessing the adequacy of local systems of accounting for state highway funds, (2) reviewing compliance with selected state highway fund restrictions and (3) evaluating administrative and overhead expenditures from state highway funds. Ten counties and 15 cities were selected for review. Overall, the audit disclosed that the counties and cities maintain adequate systems to safeguard, record and report on funds received and expended. The agencies had substantially complied with statutory restrictions for the expenditure of State Highway Fund monies. The auditors found that because counties and cities co-mingle State Highway Fund monies with monies from a variety of other sources, expenditures funded solely by State Highway Fund monies for road and street operations could not be specifically identified. The practice, which is allowed, did not impact the auditors' conclusion on the prudent use of public monies.

98-33 Oregon Department of Transportation — Overhead Costs

This audit of the Oregon Department of Transportation's (ODOT) administrative and overhead costs was conducted by the accounting firm of Talbot, Korvola and Warwick, L.L.P. under contract to the Audits Division. The audit found that of ODOT's \$1.36 billion expended in the 1995-97 biennium, \$290.7 million (21.4 percent) was used for administration and indirect (overhead) services. The portion of expenditures for administrative and indirect (overhead) services within ODOT's highway construction and maintenance branch (9.8 percent) compared favorably to average administrative and indirect expenditures reported by 25 Oregon local governments. Due to a lack of formal or comparative criteria, the auditors concluded that detailed cost analysis, outside the scope of

this audit engagement, is needed to conclude on the reasonableness and economy of expenditures within ODOT's Central Administration area, Driver and Motor Vehicle Services Branch, Transportation Development Branch, and in other areas.

98-34 Crook County School District Special Review

This audit of the Crook County School District was conducted in response to specific allegations presented to the Oregon Audits Division in October 1996 by a number of Crook County citizens. The results of our review of pertinent school district records for the period of January 1994 through June 1997 determined that the district could improve accountability over public funds in several areas. The audit found that the district engaged in transactions that did not appear to be at arm's length, did not always use a competitive procurement process as required by public procurement laws and rules, and did not maintain inventory records for its fixed assets and did not properly record in its accounting records certain revenue and expenditure transactions. The review also revealed that the district superintendent did not always present significant issues to the board and frequently relied upon polling individual board members by telephone to obtain approval for operating decisions. Board policies created confusion or appeared to be contradictory, resulting in a lack of clarity about the superintendent's authorization relating to purchasing and grants from private sources. The audit also noted areas relating to hiring and training of personnel that can be improved. The district needs to ensure it consistently follows established hiring procedures and provides required training to custodians for the hazard communication and Asbestos Hazard Emergency Response Act programs.

98-35 Adult and Family Services Division: Review of State-subsidized Child Care Payments

This report reviews the controls over payments to child care providers paid by Adult and Family Services Division (AFS) of the Department of Human Resources. The 1995-97 biennial budget for child care programs administered by AFS was \$112 million in state and federal funds. As Oregon continues to successfully move welfare recipients into jobs and assist non-welfare working poor families in staying off welfare, the need for subsidized child care will increase accordingly. The review determined that AFS can strengthen controls over payments to child care providers to help ensure that child care payments are made in appropriate amounts to eligible providers for eligible services. Further, improved procedures for collecting overpayments to child care providers will enhance the integrity of the child care program.

98-36 Department of Consumer and Business Services Workers' Compensation Division and Workers' Compensation Board

This performance audit of the Workers' Compensation Division and Workers' Compensation Board of the Department of Consumer and Business Services was conducted under contract to the Oregon Audits Division by Talbot, Korvola & Warwick LLP. The audit concluded that (1) caseload standards for Administrative Law Judges

appear appropriate to meet case review requirements; (2) the division correctly identified the programs for which work load is tied to the number of workers' compensation claims filed; (3) staffing adjustments have been made in most areas as a result of a decrease in claims filed; (4) because performance measurements have not been established in all work areas, the audit's analysis is inconclusive as to whether current practices and staffing levels are appropriate to efficiently meet the requirements of statutes and administrative rules; (5) the division's audit function is meeting all necessary requirements in conducting field audits, and is neither exceeding nor falling short of any requirements imposed by statutes or administrative rules; and (6) opportunities exist for the division to better coordinate audits, decrease intrusiveness, improve cross-training of staff and obtain additional input from the industry. The report makes specific recommendations to the board and to the division to consider as they study ways to further improve their performance.

98-37 SAIF Corporation For the Years Ended December 31, 1997 and 1996

This audit was performed by KPMG Peat Marwick under contract with the Audits Division, and covers the years ended December 31, 1997 and 1996. This audit concludes that the financial statements are fairly presented. No material weaknesses were noted in SAIF's internal control structure and tests disclosed no instances of noncompliance with applicable laws and regulations.

98-38 Oregon Beef Council July 1, 1997, to June 30, 1998

The audit, performed by Grove, Mueller, Hall & Swank under contract with the Audits Division, encompassed the year ended June 30, 1998. The report of the Oregon Beef Council, Portland, Oregon, contains its audited financial statements and reports on its internal control structure and compliance with applicable laws, rules and regulations. The annual audits of the Oregon Beef Council are also provided to the Beef Promotion and Research Board as assurance of the reported Beef Checkoff revenues which are shared with that agency. In addition, the Oregon Department of Agriculture receives the audit report as part of its oversight role for the council and other commodity commissions.

98-39 Department of Administrative Services: Computer Center General Controls Review

The review of general controls at the Department of Administrative Services Information Resources Management Division's (IRMD) general government data center identified areas needing improvement in access controls, physical security, internal audit coverage, disaster recovery and contingency planning, and processes to ensure the data center would be year 2000 compliant. The report includes follow up of prior audit findings and a review of IRMD's efforts to ensure year 2000 compliance of the data center. The report contains recommendations that the department resolve identified security issues and evaluate the adequacy of the current computer security configuration; escort visitors in the data center and maintain a visitor's log; review and adjust physical security policies and procedures to ensure adequate protection for the data center and its employees; provide for increased

internal audit coverage of data center operations and resources; develop a disaster recovery and contingency plan for network operations and perform on-going and regular disaster recovery training; and develop and document a comprehensive plan to assess, test, and monitor year 2000 remediation efforts.

98-40 Oregon Department of Education: Child and Adult Care Food Program – A Child’s Place

This audit of the USDA’s Child and Adult Care Food Program at A Child’s Place, a nonprofit child care center in Hillsboro, Oregon, was conducted at the request of the Oregon Department of Education. The results of our review of program operations during the two-year period ended June 30, 1996, determined that A Child’s Place was not in compliance with applicable program requirements and regulations. We questioned \$91,252 of reimbursement amounts paid to A Child’s Place because the center’s officials did not maintain adequate meal count, attendance and menu production records, or participant eligibility applications. Furthermore, A Child’s Place did not have adequate cost accounting records to demonstrate that all program reimbursement funds were used for the conduct or improvement of the food operation. Also, A Child’s Place did not have evidence that it met minimum meal component requirements during the period audited. The audit recommended the Oregon Department of Education require A Child’s Place reimburse the questioned amounts and closely monitor A Child’s Place’s future program operations.

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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

Catherine E. Pollino, CGFM

Sharron E. Walker, CPA, CFE



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Auditing to Protect the Public Interest and Improve Oregon Government