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Secretary of State

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

December 13, 2000



**Audits Division**

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*Auditing for a Better Oregon*

Senator Duncan and  
Representative Lewis, Co-Chairs,  
and Members of the 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 17, 1999 Legislative Audit Committee meeting. The report consists of three sections. The first section briefly describes some of the audits we have planned and intend to conduct in 2001. 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. The third section contains brief summaries of the reports and management letters we have issued since the November 17, 1999 meeting of the Legislative Audit Committee.

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.

OREGON AUDITS DIVISION

John N. Lattimer  
Director

December 13, 2000



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## **PLANNED AUDITS**

The following are some of the more significant audits we plan to start in 2001.

### **Automated Risk Assessment System – Risk Reviews**

The Audits Division is currently constructing a database in which to store audit risk information on the various state agencies. The system will compile information on agencies' inherent and control risk. Inherent risk ratings measure those things that make an agency inherently more risky to manage and operate (i.e. amount of expenditures, number of employees, complex service delivery). Control risk ratings measure the quality of the management controls and structures in place to mitigate risk (i.e. good cash handling policies and procedures, strong planning and budgeting processes). We plan to begin compiling information on these risks in the near future at a number of state agencies, including the Department of Transportation, the Department of Human Services, the Department of Corrections, the Oregon Youth Authority, and the Economic and Community Development Department. The results of the risk assessment may also lead to additional audit work.

### **Statewide Information Technology (IT) System Development**

State agencies are currently developing a number of major IT systems. These projects currently total over \$100 million. There are many potential risks that can be realized when developers do not use adequate system development methodologies. The most devastating risk is that completed systems may not meet the users' business needs, requirements or expectations. The purpose of this audit will be to evaluate the system development methodologies selected agencies use to mitigate the risks associated with their development projects.

### **Economic and Community Development Department, Oregon—Performance Audit**

The Economic and Community Development Department invests lottery, federal, and other funds to help communities and regions build healthy business climates that stimulate employment, enhance quality of life, and sustain Oregon's long-term prosperity. This review will begin with an assessment of fiscal and management controls over the department's various functions. This risk assessment will determine the scope of subsequent audit work.

### **Oregon Health Plan –Eligibility Determination**

The Oregon Health Plan, administered by the Department of Human Services Office of Medical Assistance Programs, provides health care to low-income Oregonians. We plan to use automated tools to look at the effectiveness of the health plan's eligibility determination process.



## **AUDITS IN PROCESS**

Following are audits we have started but not yet completed. They are arranged in alphabetical order by agency name.

### **Administrative Services, Department of: Oregon State Payroll System Information Technology Controls Review**

OSPS is the state's central payroll system. Each month OSPS processes payroll checks and direct deposit payments for over 34,000 state employees in 120 state agencies. These checks represent annual expenditures of over \$1 billion. The purpose of this review is to evaluate computer controls governing input, processing, output, and storage. This report is scheduled for release in December 2000.

### **Administrative Services, Department of: Information Resources Management Division Information Technology Review**

The Information Resources Management Division (IRMD) is the state's information technology (IT) delivery, development and support agency. This audit will evaluate various services that IRMD provides state agencies, including technical guidance and oversight. Another objective of the audit will be to review IRMD charges for services provided. This report is scheduled for release in March 2001.

### **Architect Examiners, Board of: Opinion Fiscal Year 2000**

Senate Bill 1127, enacted by the 1999 Legislative Assembly, converted the Board of Architect Examiners to semi-independent state agency status. Among the provisions of the Act was a requirement that the Secretary of State enter into an agreement with the board to set an appropriate audit schedule for the board. The Audits Division entered into a contract for a financial statement opinion audit. The audit report is scheduled for release in December 2000.

### **Columbia River Gorge Commission**

This audit is performed jointly with the Washington Office of the State Auditor pursuant to the Interstate Cooperative Agreement for the Columbia River Gorge Commission Audit. We will audit the commission's Oregon expenditures for appropriateness and for compliance with laws and regulations of the state of Oregon. This report is scheduled for release in March 2001.

**Education, Department of: Infrastructure Audit**

This audit is a review of K-12 school building conditions including facilities planning, maintenance, and funding. In Oregon, there are nearly 200 unique, independent local school districts operating over 1,200 individual school buildings. Both among and within districts, the variability in structural sufficiency and functionality of buildings can be significant. The purpose of this audit is to review school districts' varying infrastructure planning, maintenance, and funding practices, review the state's role in the school facilities planning and funding process, and make recommendations for improvement. The report is scheduled for release in February 2001.

**Energy, Office of: Small Scale Energy Bond Program—Opinion Fiscal Year 2000**

This is an annual audit conducted for the purpose of reporting on the financial statements of the Office of Energy's Small Scale Energy Loan Program. This audit includes an evaluation of the internal controls and tests for compliance with applicable laws and regulations. The audit encompasses the fiscal year ended June 30, 2000, and is scheduled for release in February 2001.

**Engineering and Land Surveying, State Board of Examiners for: Opinion Fiscal Year 2000**

Senate Bill 1127, enacted by the 1999 Legislative Assembly, converted the State Board of Examiners for Engineering and Land Surveying to semi-independent state agency status. Among the provisions of the Act was a requirement that the Secretary of State enter into an agreement with the board to set an appropriate audit schedule for the board. The Audits Division entered into a contract for a financial statement opinion audit. The audit report is scheduled for release in December 2000.

**Environmental Quality, Department of: Surface Water Quality Audit**

The Oregon Department of Environmental Quality (DEQ) administers federal and state laws regulating air, water, and land pollution. This audit includes a review of the agency's actions to protect the quality of Oregon's surface water; lakes, rivers, and streams. This audit is being conducted as part of a multi-state joint audit, sponsored by the National State Auditors Association. At DEQ, our assessment includes three objectives: (1) Do state regulatory programs meet or exceed minimum federal standards for surface waters? (2) Does DEQ have an effective monitoring program for surface waters? (3) Does DEQ apply corrective actions effectively? Our report on Oregon's surface water quality is scheduled for release in December 2000.

**Environmental Quality, Department of: Change of Director Audit and Risk Assessment**

The Oregon Department of Environmental Quality is Oregon's primary agency responsible for managing the quality of Oregon's environment through protecting and enhancing Oregon's water and air quality, cleaning up spills and releases of hazardous materials, and by managing the proper disposal of hazardous and solid wastes. We are conducting a detailed risk assessment to identify management risks and to plan future audit work. We will be combining the risk assessment work with a change of director audit because the agency's director recently resigned. This audit will be conducted to comply with *Oregon Revised Statutes 297.210(2)*, which requires the Secretary of State to perform an audit or review when an agency head leaves that position for any reason. This audit will examine transactions and accounts under the former director's control. The audit also will review whether the office has safeguards in place to protect state assets at the time of separation. The report is scheduled for release in February 2001.

**Geologist Examiners, State Board of: Opinion Fiscal Year 2000**

Senate Bill 1127, enacted by the 1999 Legislative Assembly, converted the State Board of Geologist Examiners to semi-independent state agency status. Among the provisions of the Act was a requirement that the Secretary of State enter into an agreement with the board to set an appropriate audit schedule for the board. The Audits Division entered into a contract for a financial statement opinion audit. The audit report is scheduled for release in December 2000.

**Hispanic Affairs, Oregon Commission on: Change of Director Audit**

The audit is conducted to comply with *Oregon Revised Statutes 297.210(2)*, which requires the Secretary of State to perform an audit or review when an agency head leaves that position for any reason. This audit examines transactions and accounts under the former director's control. The audit also reviews whether the office has safeguards in place to protect state assets at the time of separation. The report is scheduled for release in February 2001.

**Housing and Community Services Department, Oregon: Opinion Fiscal Year 2000**

This is an annual audit conducted for the purpose of reporting on the financial statements of the Oregon Housing and Community Services Department's enterprise fund. The audit includes an evaluation of internal controls and tests for compliance with applicable laws and regulations. The audit encompasses the fiscal year ended June 30, 2000, and is scheduled for release in November 2000.

**Human Services, Department of: Branch Office Security Review**

The purpose of this audit is to conduct a review of computer security controls at Department of Human Services branch offices. Security reviews include an evaluation of the controls used to protect computer data and systems from unauthorized use, disclosure or modification, and damage or loss. The report is scheduled for release in February 2001.

**Human Services, Department of: Food Stamp Management Information System Application Controls Audit**

The Food Stamp Management Information System(FSMIS) is the system used to track food stamp eligibility and issue benefits. On a monthly basis during fiscal year 1999, approximately 107,000 families received almost \$16 million in food stamp benefits, which would average to \$149 for each family. This audit is reviewing the FSMIS application controls, which are those procedures that ensure completeness and accuracy of data input, processing, and output. The report is scheduled for release in February 2001.

**Human Services, Department of: Office of Alcohol and Drug Abuse Programs--Contract Management Audit**

This audit reviews the Office of Alcohol and Drug Abuse Program's monitoring of state-funded treatment programs. The services are provided under contract by government agencies and non-profit corporations. The audit evaluates the Office's work to ensure that agreed-to services are being provided and that contracting procedures and payments comply with state requirements. The report is scheduled for release in January 2001.

**Human Services, Department of: Office of Medical Assistance Programs—Encounter Data Audit**

The Department of Human Services' Office of Medical Assistance Programs (OMAP) collects encounter data from Prepaid Health Plans that provide medical services to members of the Oregon Health Plan. In the managed care environment, encounter data is used for many things including evaluating quality of care, access to care, and to provide detailed information for rate setting. This audit is designed to evaluate the agency's collection and use of this information. Similar audits are to be conducted across the United States as a part of the annual joint audit conducted by the National State Auditors Association. This report is scheduled for release in April 2001.

**Human Services, Department of: Health Division—Drinking Water Quality Audit**

The Oregon Health Division, a component of the Department of Human Services, provides an array of public health related programs and services. The audit includes a review of the agency's actions to monitor and protect the state's drinking water supplies. The National State

Auditors Association has chosen water quality as the topic for its 2000 joint audit project. Auditors from several states, including Oregon, are conducting audit work with similar objectives. Oregon's audit results will be compiled with other states' results into a single report. Our report on Oregon's drinking water quality program is scheduled for release in December 2000.

**Landscape Architect Board, State: Opinion Fiscal Year 2000**

Senate Bill 1127, enacted by the 1999 Legislative Assembly, converted the State Landscape Architect Board to semi-independent state agency status. Among the provisions of the Act was a requirement that the Secretary of State enter into an agreement with the board to set an appropriate audit schedule for the board. The Audits Division entered into a contract for a financial statement opinion audit. The audit report is scheduled for release in December 2000.

**Liquor Control Commission, Oregon: Comparative Risk Assessment**

We conducted a risk assessment of the agency and initiated audit work in those areas we deemed to have significant management risk such as oversight of agent run liquor stores, and the regulation of liquor license and service permit holders. The report is scheduled for release in December 2000.

**Lottery, Oregon State: Opinion Audit**

This is an annual audit conducted for the purpose of reporting on the financial statements of the Oregon State Lottery. This audit includes an evaluation of internal controls and tests for compliance with applicable laws and regulations. The audit encompasses the fiscal year ended June 30, 2000, and is scheduled for release in December 2000.

**Massage Technicians, Board of: Opinion Fiscal Year 2000**

Senate Bill 1127, enacted by the 1999 Legislative Assembly, converted the Board of Massage Technicians to semi-independent state agency status. Among the provisions of the Act was a requirement that the Secretary of State enter into an agreement with the board to set an appropriate audit schedule for the board. The Audits Division entered into a contract for a financial statement opinion audit. The audit report is scheduled for release in December 2000.

**Measure 66 – Phase I (Interim Procedures)**

As a part of our constitutionally mandated audit of Measure 66 expenditures, we have begun interim procedures at agencies receiving these expenditures for the 1999-2001 biennium. Specifically, we want to learn about the following: (1) how the agencies are using or are

planning to use the funds; (2) how the funds are being accounted for; (3) what performance measures have been established to determine benefits received from the funds; and (4) what procedures are being used to collect this data. This work will reduce the amount of audit time needed at biennium end, as well as provide feedback to the agencies regarding our expectations for controls and performance measurements that should be in place.

### **Optometry, Oregon Board of: Opinion Fiscal Year 2000**

Senate Bill 1127, enacted by the 1999 Legislative Assembly, converted the Oregon Board of Optometry to semi-independent state agency status. Among the provisions of the Act was a requirement that the Secretary of State enter into an agreement with the board to set an appropriate audit schedule for the board. The Audits Division entered into a contract for a financial statement opinion audit. The audit report is scheduled for release in December 2000.

### **Oregon, State of: Comprehensive Annual Financial Report**

This audit is conducted to report on the state of Oregon's comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2000. The audit includes an evaluation of internal controls and tests for compliance with applicable laws and regulations. Audit work is simultaneously underway for the related report on internal controls and federal compliance. Our report on the state's CAFR is scheduled for release in December 2000.

### **Oregon, State of: Federal Compliance and Internal Control Report**

This audit is conducted in accordance with the Single Audit Act, as required, to allow the state of Oregon to continue to receive federal assistance. This audit, which is conducted in tandem with the audit of the state's CAFR, examines the state's Schedule of Expenditures of Federal Assistance, and evaluates internal controls over financial reporting and compliance with state and federal program requirements. This report is scheduled for release in February 2001.

### **Parks and Recreation Department, Oregon: Change of Director Audit**

In compliance with *Oregon Revised Statutes* 297.210(2), the Audits Division performs an audit when the executive head of a state department, large division of a state department, or state institution retires from his or her position. The former director of the Oregon Parks and Recreation Department resigned from his position in January 2000 and remained with the agency in a temporary position until July 2000. This audit examines transactions and accounts directly under the control of the former director. The audit also reviews the effectiveness of department procedures in protecting state assets at the time of separation. The report is scheduled for release in December 2000.

**Physical Therapists Licensing Board: Opinion Fiscal Year 2000**

Senate Bill 1127, enacted by the 1999 Legislative Assembly, converted the Physical Therapists Licensing Board to semi-independent state agency status. Among the provisions of the Act was a requirement that the Secretary of State enter into an agreement with the board to set an appropriate audit schedule for the board. The Audits Division entered into a contract for a financial statement opinion audit. The audit report is scheduled for release in December 2000.

**Public Employees Retirement System: Opinion Fiscal Year 2000**

This is an annual audit conducted for the purpose of reporting on the financial statements of the Oregon Public Employees Retirement System. This audit includes an evaluation of internal controls and tests for compliance with applicable laws and regulations. The audit encompasses the fiscal year ended June 30, 2000, and is scheduled for release in December 2000.

**Public Employees Retirement System: Change of Director Audit**

The audit is conducted to comply with *Oregon Revised Statutes* 297.210(2), which requires the Secretary of State to perform an audit or review when an agency head leaves that position for any reason. This audit examines transactions and accounts under the former director's control. The audit also reviews whether the office has safeguards in place to protect state assets at the time of separation. The report is scheduled for release in December 2000.

**Revenue, Department of: Unitary Assessment**

*Oregon Revised Statutes* Chapter 137 requires that state and local courts impose a unitary assessment, in addition to other monetary obligations, upon convicted violators of specified laws. The unitary assessment is collected by the Department of Revenue and deposited into the Criminal Fines and Assessments Account established in the General Fund of the State Treasury. Moneys in the account are distributed monthly by the Department of Revenue to recipient agencies and funds in accordance with a formula established by law. The audit will determine whether courts are complying with legal requirements in imposing the unitary assessment, and whether controls are in place for the collection and deposit of the unitary assessment and distribution of monies from the Criminal Fines and Assessments Account. This report is scheduled for release in January 2001.

**State Fair and Exposition Center, Oregon: Charge of Director Audit**

The audit is conducted to comply with Oregon Revised Statutes 297.210(2), which requires the Secretary of State to perform an audit or review when an agency head leaves that position for any reason. This audit examines transactions and accounts under the former director's control. The audit also reviews whether the office has safeguards in place to protect state assets at the time of separation. The report is scheduled for release in February 2001.

**State Lands, Division of: Change of Director Audit**

The audit is conducted to comply with Oregon Revised Statutes 297.210(2), which requires the Secretary of State to perform an audit or review when an agency head leaves that position for any reason. The Division of State Lands is the state agency charged with managing the land and other resources dedicated to the Common School Fund, as well as serving a role in unclaimed property, administering estates, managing the South Slough National Estuarine Research Reserve, and supporting the Oregon Natural Heritage Program. This audit examines the transactions and accounts under the former director's control. The audit also reviews whether the office has safeguards in place to protect state assets at the time of separation. The report is scheduled for release in December 2000.

**Student Assistance Commission, Oregon: Opinion Audit**

This is an annual audit conducted for the purpose of reporting on the financial statements of the Oregon Student Assistance Commission. This audit includes an evaluation of internal control and tests for compliance with applicable laws and regulations. The audit is being conducted by Merina, McCoy, and Co. under contract with the Audits Division and encompasses the fiscal year ended June 30, 2000. This report is scheduled for release in February 2001.

**Transportation, Oregon Department of: Oregon Transportation Infrastructure Fund Opinion**

This is an annual audit conducted for the purpose of reporting on the financial statements of the Oregon Transportation Infrastructure Fund. This audit includes an evaluation of internal controls and tests for compliance with applicable laws and regulations. This audit encompasses fiscal year ended June 30, 2000, and is scheduled for release December 2000.

**Treasury, Oregon State: Integrated Audit 2000 and Information Technology Audit**

As part of the annual statewide audit for the year ending June 30, 2000, we will audit internal controls for selected classes of transactions processed by the Treasury on behalf of other state agencies. The audit will also include a risk assessment of Treasury's information systems and processes. This report is scheduled for release in December 2000.

**University System, Oregon: Opinion Fiscal Year 2000**

This is an annual audit of the Oregon University System. The audit is conducted by the accounting firm of Deloitte and Touche, LLP, under contract with the Audits Division. The auditor's report on the System's financial statements for the fiscal year ending June 30, 2000, and related reports on the System's schedule of expenditures of federal awards, internal controls, and compliance with laws and regulations is scheduled for release in December 2000.

**University System, Oregon: Performance Indicators Audit**

During the 1990s, OUS absorbed significant cuts in state appropriations as voter approval of Measures 5 and 47 resulted in state funds being shifted to primary and secondary education. In response, OUS officials initiated a number of changes to reduce administrative costs and increase operating efficiencies. OUS has reported success in cutting costs and streamlining operations while preserving educational quality and access to higher education. This audit is intended to provide an independent review of the results of OUS's efforts. The performance of OUS's seven universities is reviewed for the past several academic years. Performance is measured by numerical indicators the higher education community uses in measuring academic and administrative efficiency. The report is scheduled for release in January 2001.

**University System, Oregon: Oregon State University—Valley Library Contract Review**

This is a contract compliance audit of the Valley Library constructed on the OSU campus. Direct construction costs paid to the contractor totaled \$32.6 million. The audit reviews contractor selection procedures, contractor payments, change orders, compliance with contract provisions, and settlement agreements. This report is scheduled for release in January 2001.

**University System, Oregon: University of Oregon—Review of Selected Operations**

Since the passage of SB 271 (the Higher Education Efficiency Act), the Oregon University System has allowed administrative decision-making to be decentralized and delegated down to the departmental level at each university. Decentralization has occurred in areas critical to oversight of state assets. The purpose of this audit is to determine whether the University of Oregon (UO) has implemented effective controls to safeguard state assets. The audit evaluates UO's management oversight of credit card usage, payroll, equipment, employee separation procedures, and contracts and transactions with the University of Oregon Foundation. This report is scheduled for release in January 2001.

**Veterans' Affairs, Department of: Opinion 2000**

This is an annual audit conducted for the purpose of reporting on the financial statements of the Department of Veterans' Affairs. This audit includes an evaluation of internal controls and tests for compliance with applicable laws and regulations. The audit encompasses the fiscal year ended June 30, 2000, and is scheduled for release in December 2000.

**Youth Authority, Oregon: Change of Director Audit**

The audit is conducted to comply with *Oregon Revised Statutes 297.210(2)*, which requires the Secretary of State to perform an audit or review when an agency head leaves that position for any reason. This audit examines transactions and accounts under the former director's control. The audit also reviews whether the office has safeguards in place to protect state assets at the time of separation. The report is scheduled for release in December 2000.

## **REPORTS ISSUED SINCE NOVEMBER 17, 1999**

Following are brief summaries of the audit reports we have issued since the November 17, 1999, meeting of the Joint Legislative Audit Committee. The summaries are in alphabetical order by agency name.

### **Administrative Services, Department of: Change of Director—Report No. 2000-28**

This report contains the results of our statutorily-required audit of the Department of Administrative Services' change of director. Our audit indicated that the former director returned all fixed assets assigned to him and the agency appropriately terminated the former director's access to state computer systems and property. Further, we found the recent reimbursements and travel requests for the former director to be minimal and reasonable. However, we did note several exceptions and improvements that the agency could make in timesheet and personal services contract review and approval processes.

### **Administrative Services, Department of: Oregon State Payroll System Application Control Review—Report No. 2000-14**

This report contains results of an audit of the Oregon State Payroll System (OSPS) in the State Controller's Division of the Department of Administrative Services (DAS). The purpose of the audit was to review application controls of OSPS. The report includes specific recommendations concerning the consistency of system programming changes following a comprehensive System Development Life Cycle methodology; identification, documentation and review of OSPS edits; management of OSPS backup and offsite storage; check reconciliation duties and monitoring of the manual check function; access granted to programmers and Central Payroll and development of procedures to closely monitor programmers' emergency access to production libraries; compliance with existing DAS policy regarding monitoring dual access; and compliance with Oregon State Treasury policies and procedures regarding control of blank check stock.

### **Administrative Services, Department of: Review of Qualified Rehabilitation Facilities—Report No. 2000-30**

This report contains the results of our audit of four Oregon non-profit corporations that participate in the state's Qualified Rehabilitation Facilities (QRF) program, which is managed by the Department of Administrative Services. A QRF is a non-profit organization whose mission is to provide employment services to persons with disabilities, and that participates in the state's QRF program. The audit was performed by the accounting firm of Merina, McCoy & Co., under contract to the Audits Division. Following advice provided by the Department of Justice, for each organization the audit included labor hours for the entire legal entity incorporated in Oregon. The audit showed that three of the four QRFs were in compliance with ORS 279.835(4)(c) for the overall state fiscal year 1998-1999. The fourth organization, Goodwill Industries of the Columbia-Willamette, was not in compliance because it does not

maintain disability documentation for its 2,500-employee Retail Services Division. Neither Goodwill nor DAS has considered the Retail Services Division to be part of the QRF program. During the audit we identified a need for QRF program documentation standards. We also found that certain definitions in ORS 279.835 did not clearly establish criteria for determining QRFs' compliance with applicable laws.

**Administrative Services, Department of: Statewide Financial Management System (SFMS) Computer Application Controls—Report No. 1999-40**

This report contains results of our evaluation of selected computer controls governing the Department of Administrative Services's Statewide Management Information System (SFMS) and its related Data Mart. During this audit, we evaluated controls to limit access to these systems and procedures to ensure that information included in the Data Mart accurately reflect corresponding SFMS transactions. We also reviewed the status of related recommendations contained in our previous audits relating to SFMS operations. The report includes recommendations to improve SFMS and Data Mart controls.

**Administrative Services, Department of: Year 2000 Management Review—Report No. 2000-06**

This audit reviewed the management of Y2K remediation efforts at selected state agencies responsible for correcting the most critical statewide systems. Those agencies include the Oregon Department of Transportation, Oregon State Treasury, Oregon State Police and the Department of Human Services (DHS). During our audit, we reviewed documentation in support of actions taken by the agencies. We also reviewed the required Y2K supplementary information to be included in the state of Oregon Consolidated Annual Financial Report (CAFR) for fiscal year 1999. The required Y2K supplementary information included in the fiscal year 1999 state of Oregon Comprehensive Annual Financial Report (CAFR) was reasonable. Public disclosures made by selected agencies and the Y2K Project Office reasonably reflected their actual Y2K remediation status. Selected agencies were managing their Y2K remediation plans to ensure that all critical components could be timely addressed. Finally, the selected agencies had reasonable business continuation plans for their core business functions.

**Agriculture, Department of: Change of Director—Report No. 1999-43**

This report presents the results of our Change of Director Review for the Department of Agriculture. We conducted this review in compliance with *Oregon Revised Statute* 297.210(2), which requires the Secretary of State to audit or review any state agency when the executive head leaves his or her position. Our objectives were to examine transactions and accounts directly under the former director's control for compliance with applicable laws and regulations. In addition, we reviewed the department's procedures as related to the transactions and accounts examined. The report details findings on some identified internal control weaknesses. We also noted instances of possible noncompliance with statutes and state rules that resulted in our recommendation to the department that reimbursement from the

former director and from a contractor be pursued. Specifically, the department reimbursed the former director for lodging that exceeded allowable amounts; paid more than \$8,000 for first class and business class air travel for the former director, even though coach class was approximately \$3,800 less and was required by state rules; reimbursed the former director for personal car mileage when the former director appeared to use a state car for the same trips or submitted duplicate billings; made travel advances to employees which exceeded the amount of actual travel expense; and did not monitor for travel reimbursement from outside sources.

**Beef Council, Oregon: Opinion July 1, 1999, to June 30, 2000—Report No. 2000-33**

This report of the Oregon Beef Council (OBC), Portland, Oregon, contains its audited financial statements and reports on its internal control structure and compliance with applicable laws, rules and regulations. The audit, performed by Merina, McCoy & Co., PC for the Secretary of State Audits Division, encompasses the year ended June 30, 2000.

**Children's Trust Fund of Oregon: For the Year Ended June 30, 1999—  
Report No. 2000-05**

This report contains results of an audit of the financial statements of the Children's Trust Fund of Oregon (CTFO) as of and for the period ended June 30, 1999, and a report on CTFO's compliance with laws and regulations and on internal control over financial reporting. The audit was performed by Grove, Mueller & Swank, P.C. for the Audits Division.

**Children's Trust Fund of Oregon: For the Year Ended June 30, 2000—Report No.  
2000-38**

This report contains audited financial statements of the Children's Trust Fund of Oregon as of and for the year ended June 30, 2000, and a report on the Children's Trust Fund's compliance with laws and regulations, contracts and grants and on internal control over financial reporting. The audit was performed by Grove, Mueller & Swank, P.C. for the Audits Division.

**Columbia River Gorge Commission: July 1, 1998, to June 30, 1999—  
Report No. 2000-31**

This audit was performed for the Washington State Auditor's office pursuant to the Interstate Cooperative Agreement for the Columbia River Gorge Commission Audit. Oregon expenditures were audited for appropriateness and compliance with Oregon laws and regulations. The report contains Independent Auditor Reports on the financial statements and on compliance with state laws and regulations as of and for the year ended June 30, 1999. The Oregon Audits Division issued these reports as a matter of public information for the taxpayers of Oregon, and the Washington State Auditor's office issued the reports for public use in the state of Washington.

**Consumer and Business Services, Department of: Change of Director Audit—  
Report No. 2000-20**

This report presents the results of our Department of Consumer and Business Services Change of Director audit. This audit was conducted in compliance with *Oregon Revised Statute* 297.210(2), which requires the Audits Division to perform an audit or review when the executive head of a state agency leaves that position for any reason. We found that the department took appropriate termination actions upon the former director's separation from the department.

**Economic and Community Development Department, Oregon: Special Public Works  
Fund July 1, 1998, to June 30, 1999—Report No. 2000-24**

This report on our annual audit of the Oregon Economic and Community Development Department's Special Public Works Fund concluded that the financial statements and accompanying notes as of and for the year ended June 30, 1999, are fairly presented in accordance with generally accepted accounting principles. This audit also includes a report on our review of internal controls and tests for compliance with applicable laws and regulations.

**Economic and Community Development Department, Oregon: Water Fund  
July 1, 1998, to June 30, 1999—Report No. 2000-25**

This report on our annual audit of the Oregon Economic and Community Development Department's Water Fund concluded that the financial statements and accompanying notes as of and for the year ended June 30, 1999, are fairly presented in accordance with generally accepted accounting principles. This audit also includes a report on our review of internal controls and tests for compliance with applicable laws and regulations.

**Education, Department of: Database Initiative Project—Report No. 2000-39**

This report contains the results of an audit to determine, through review of the pilot project, whether the Database Initiative (DBI) Project will be capable of producing valid, comparable information for state decision makers. The 1997 Legislative Assembly passed House Bill 3636 authorizing the Database Initiative Project. The bill required the State Board of Education to adopt a uniform budget and accounting system for school districts and education service districts. This system was to include uniform definitions that would allow for valid comparisons of expenditures among schools and districts. Further, the legislation required the Department of Education (department) to collect this information and other information about schools and districts and place it in a database accessible to the public through the internet. During the pilot project the department did a good job developing a database to process and report information. It appears that the department will meet the project's objectives if the quality of the non-financial information input to the system is improved. The department needs to provide better guidance, monitoring, training, and tools to the districts in order to improve the quality and comparability of the input data. In addition, the announced closure of

a computer service provider who services close to one third of the school and educational service districts in the state poses an additional risk to the success of the project. The report recommends that the department implement a comprehensive program of training and support for school district staff, and provide the necessary guidance and tools on an ongoing basis to improve the quality and comparability of the data input to the system.

**Energy, Office of: Small Scale Energy Loan Program For the Years Ended  
June 30, 1999 and 1998—Report No. 2000-12**

This report on our annual audit of the financial statements of the Office of Energy, Small Scale Energy Loan Program (SELP) for the years ended June 30, 1999 and 1998 concluded that the financial statements are fairly presented in accordance with generally accepted accounting principles. A review of SELP's internal control and compliance with applicable laws and regulations noted no instances of noncompliance that are required to be reported under government auditing standards. Similarly, we did not note any material weaknesses in internal control over financial reporting.

**Fish and Wildlife, Oregon Department of: Commercial Fisheries Regulation—  
Report No. 2000-10**

Most of Oregon's commercial fish processing is conducted in facilities regulated by the state. Oregon regulates commercial fish processing primarily through the Oregon Department of Fish and Wildlife (department) and the Department of Oregon State Police (state police). The department and state police sample, weigh, and observe some fish landings to ensure that the correct landing tax is collected and a proper accounting of fish species and weights is made. The department and state police have observed black market and illegal activities that circumvent this structure, and other problems that affect the accurate recording of fish species and weights. These problems affect both the tax collected and the department's ability to manage fish seasons and catch limits, which is complicated if processing facilities provide inaccurate or incomplete data. In addition, participants of the fishing industry that comply with laws and regulations are disadvantaged by illegal or black market activities. We found that the commercial fish enforcement structure contains some weaknesses that allow illegal acts and misreporting to occur. These activities can occur without detection because only a small percentage of commercial fish landings are monitored and because other monitoring activities have been curtailed in recent years. In addition, other deterrents, such as stiff fines for violations or progressive penalties for repeat violations, have not been routinely used.

**Forestry, Department of: Report No. 2000-08**

This report makes specific recommendations to the department for strengthening its internal controls in financial-related areas and information technology, and provides information about the department's management of timber sales from state-owned forest lands. Information provided includes the timber sales process, various risks we identified, and the department's control procedures to reduce those risks. Our review of the department's efforts to implement the recommendations from our 1995 audit report, *State Forest Management Program Cost*

*Allocation Processes* (report number 95-30), found that the department partially or fully implemented all of our recommendations.

**Geology and Mineral Industries, Department of: Change of Director Review—  
Report No. 2000-18**

This audit was performed to comply with Oregon Revised Statute 297.210(2), which requires the Secretary of State to audit or review any state agency when the executive head leaves his or her position. The purpose of the audit was to assure that appropriate actions were taken to cancel the former director's access to state systems and return any state assets in his possession, and to assure that recent transactions authorized by the former director were reasonable and complied with appropriate laws and regulations. The report notes that the department can improve its controls relating to out-of-state travel authorization, safeguarding fixed assets, and computer system access. The report also notes that the department had not taken corrective action on a prior audit finding regarding the timeliness of deposits.

**Housing and Community Services Department, Oregon: For the Years Ended  
June 30, 1999 and 1998—Report No. 2000-04**

This report contains results of an annual audit of the financial statements and accompanying notes of the Oregon Housing and Community Services Department for the years ended June 30, 1999 and 1998. We noted no instances of noncompliance that are required to be reported under government auditing standards. Similarly, we did not note any material weaknesses in internal control over financial reporting.

**Human Services, Department of: Change of Administrator Audits—Report No. 2000-37**

This report includes the full results of our change of administrator audits completed at the Department of Human Services (DHS) between January 2000 and May 2000. The divisions included were the Vocational Rehabilitation Division, the State Office for Services to Children and Families, and the Oregon Health Division. In conducting these reviews, we found that two former administrators, two former deputy administrators and one assistant administrator received questionable payments for unused vacation leave. We expanded the scope of our work to review payments for unused vacation leave made to DHS executive and management service employees in all divisions and found the problem was widespread. Further, we question DHS' arrangement with one former administrator, who was kept on the payroll for four months at full salary with only minimal responsibilities, and we question DHS' paying a contractor \$6,000 to assist the former administrator in finding other employment. We also identified several other payroll-related exceptions at DHS, including payment for unapproved discretionary leave. In all, we question approximately \$235,000 in payments to DHS employees.

**Insurance Pool Governing Board: Family Health Insurance Assistance Program—  
Report No. 2000-29**

This report presents the results of our risk assessment of the Family Health Insurance Assistance Program. This review of the program's implementation was conducted at the request of the Insurance Pool Governing Board administrator. During the review, we found the IPGB can improve its management of the third party administrator contract and monitoring of the contractor's performance. We also make recommendations to improve the cash management for this program.

**Lottery, Oregon State: Opinion Audit July 1, 1998, to June 30, 1999—Report  
No. 2000-01**

This report contains results of an opinion audit of the financial statements and accompanying notes of the Oregon State Lottery Commission for the year ended June 30, 1999. The audit revealed that the financial statements were fairly presented in accordance with generally accepted accounting principles. We noted no instances of noncompliance that are required to be reported under government auditing standards. Similarly, we did not note any material weaknesses in internal control over financial reporting.

**Lottery, Oregon State: Lottery Retailer Oversight—Report No. 2000-32**

This report contains the results of our audit of the Oregon State Lottery Commission (Lottery). Our audit found that the Lottery is not effectively enforcing its rule intended to prevent retailers from operating as casinos. The Oregon Constitution prohibits casinos from operating in Oregon. While the Legislative Assembly and the courts have not defined the term "casino," our review found that a number of businesses in Oregon appear to be primarily in the business of making money from video poker. We found that 14 percent of the high-volume video poker retailers appeared to be casinos, in that more than 60 percent of their income came from video poker. We further found several weaknesses in Lottery's initial application process and its process to ensure ongoing compliance. During our review, we also noted that Lottery's administrative expense limit may be too high. Currently, Lottery can spend as much as 16 percent of its total revenues on administrative expenses. When determining the amount of revenue on which to base its administrative expenses, Lottery includes video poker credits played in its revenue figures rather than actual cash received. By using this figure, Lottery theoretically could spend as much as \$958 million. This amount, however, is more than the actual cash received by the state. If the purpose of the 16 percent limit is to act as a cost control, it is not accomplishing this.

**Military Department, Oregon: Change of Director Audit—Report No. 2000-21**

This audit was conducted in compliance with *Oregon Revised Statute 297.210(2)*, which requires the Audits Division to perform an audit or review when the executive head of a state agency retires from his or her position. Raymond F. Rees, who was appointed as Adjutant General of the Oregon Military Department in 1994, resigned from that position effective

March 5, 1999. Our audit was limited to determining whether appropriate actions to protect state assets were taken upon the former general's separation from the department. Additionally, due to issues raised during our fieldwork, we reviewed documentation for the department's rental of military housing units for compliance with state laws. We found that the department is at risk for double payment of travel claims and may have spent state funds outside the allowable parameters for a business meal claim. We also found that the department has suffered a potential loss of revenue because it did not adjust rents for state-owned housing according to fair market values and did not obtain periodic property appraisals as required by law.

**Oregon, State of: Federal Compliance Report and Internal Control Report For the Year Ending June 30, 1999—Report No. 2000-09**

This annual statewide audit is conducted in accordance with the Single Audit Act. The statewide audit has four main components. This report contains three of the four components. The first component, the report on the state's financial statements, was separately issued in audit report number 99-44. The three components in this report include: a report on compliance with laws and regulations affecting the general-purpose financial statements and internal control over financial reporting; a report on compliance and internal control over major federal programs, including an opinion on the Schedule of Expenditures of Federal Awards; and the schedule which summarizes federal expenditures made by the state of Oregon for the year ended June 30, 1999. A Schedule describing instances of noncompliance and questioned costs and conditions affecting internal control is also included in this report along with an appendix that lists other audit reports we have issued that are related to state of Oregon programs financed by federal awards.

**Oregon, State of: Report on the State of Oregon Comprehensive Annual Financial Report For the Year Ended June 30, 1999—Report No. 1999-44**

This audit concluded that the financial statements of the state of Oregon, as of and for the year ended June 30, 1999, 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 can be found in report number 2000-09.

**Public Employees Retirement System: Information Technology Application Control Review—Report No. 2000-23**

This report contains the results of our evaluation of computer controls governing the Retirement Information Management System (RIMS), Benefit Calculation Sub-System (BCSS) and its associated work-arounds. Within RIMS, the BCSS calculates member benefit amounts and the related adjustments to various reserve accounts. Currently, PERS is involved in a project to replace the RIMS system. Based on our evaluation of PERS' processes governing system development and maintenance, we conclude that the business risk associated with this project may be significant. Our report recommends that PERS implement a more comprehensive system development life cycle (SDLC) methodology before

proceeding further with its plans. We also recommend that PERS mitigate the risks associated with the existing inadequacies of RIMS and improve system security. Additionally, we make recommendations for PERS to change the benefit calculation methodology for addressing certain lump sum retirement calculations, enforce its purchasing rules, and improve management of accounts receivable.

**Public Employees Retirement System: July 1, 1998 to June 30, 1999—  
Report No. 2000-16**

This report on our annual audit of the financial statements of the Oregon Public Employees Retirement System (PERS), for the year ended June 30, 1999, concludes that the financial statements are fairly presented in accordance with generally accepted accounting principles. Reviews of PERS' internal control and compliance noted no instances of noncompliance that are required to be reported under government auditing standards. Similarly, we did not note any material weaknesses in internal control over financial reporting.

**Oregon Resource and Technology Development Fund: For the Period Ended  
June 15, 1999 and the Year Ended June 30, 1998—Report No. 1999-42**

This report contains the audited financial statements for the Oregon Resource and Technology Development Fund (ORTDF), which was terminated effective June 15, 1999, by HB 2092 of the 1999 Legislative Assembly. That legislation also created the Oregon Resource and Technology Development Account (ORTDA), within the Education Endowment Fund, to receive substantially all assets from the ORTDF. This audit, encompassing the period ended June 15, 1999 and the year ended June 30, 1998, was performed by PricewaterhouseCoopers LLP for the Secretary of State Audits Division. The audit includes a report on internal control and compliance, as required by government auditing standards, and a report with other comments and disclosures. The report on the financial statements is qualified regarding the valuation of the ORTDF's investment portfolio. This means that the audit firm was unable to obtain sufficient competent evidence to support the portfolio's valuation as of June 15, 1999. The ORTDA board (successor to the ORTDF board) stated that it would seek an independent valuation of the securities for the purposes of transferring those assets to the ORTDA as of June 16, 1999.

**Revenue, Department of: Application Controls Review—Report No. 2000-19**

This report includes our evaluation of the Department of Revenue's application controls over the Integrated Tax Accounting (ITA) system. During our audit, we reviewed policies and procedures relating to managing system and programming changes; ensuring appropriate data input, processing and output; and providing system security. We also reviewed the status of related recommendations contained in our previous audit of the department's general controls. The report includes recommendations to improve existing policies and procedures governing the operation, maintenance, and security of the ITA system. Priority items needing attention include developing and enforcing controls over programming changes, physical and logical security, transaction approval and review and control of system outputs. In addition, the

department should better account for personal computers, develop an operations manual and further develop its disaster recovery and contingency plans.

**SAIF Corporation: For the Years Ended December 31, 1999 and 1998—Report No. 2000-35**

This report on the audit of SAIF Corporation contains audited financial statements and a report on SAIF's compliance with laws, regulations, contracts and grants and on internal control over financial reporting. This audit was performed by Deloitte & Touche LLP for the Audits Division, and covers the years ended December 31, 1999 and 1998.

**Scholarship Commission, Oregon State: Year Ended June 30, 1999—Report No. 2000-15**

This report contains the results of an audit of the Oregon State Scholarship Commission, now the Oregon Student Assistance Commission. The audit of audited financial statements, reports on internal control structure, legal compliance, federal financial assistance, and the commission's response to the schedule of findings and questioned costs was performed by Merina, McCoy & Co., CPAs, P.C. for the Oregon Audits Division. The audit encompassed the year ended June 30, 1999.

**State Bar, Oregon: Oregon State Bar Fund for Two Years Ended December 31, 1999—Report No. 2000-34**

This report of the Oregon State Bar Fund contains audited financial statements and a report on compliance with laws, regulations, and bylaws and on internal control over financial reporting. This audit was performed for the Audits Division by the accounting firm Talbot, Korvola & Warwick, LLP, and covers the two-year period ended December 31, 1999.

**State Bar, Oregon: Professional Liability Fund for the Years Ended December 31, 1999, and 1998—Report No. 2000-27**

This report on the Oregon State Bar's Professional Liability Fund contains audited financial statements and a report on the Fund's compliance with laws, regulations, and bylaws and on internal control over financial reporting. This audit, performed for the Audits Division by the accounting firm Merina, McCoy & Co., PC, covers the year ended December 31, 1999.

**State Police, Oregon: Personnel Allocation and Deployment—Report No. 2000-22**

This report contains the results of our audit of the models and processes used by the Oregon State Police for determining staffing levels. The nature of state policing is such that the quantity and allocation of human resources has a direct effect on the agency's ability to affect crime and public safety, as well as its ability to provide support services to local jurisdictions.

We found that the department could make certain adjustments to its police staffing models that would make the models more realistic predictors of actual resource needs. We also noted that deployment of personnel resulted in the Klamath Falls patrol station receiving a disproportionate share of the state police resources available. We further advise the department to take a closer look at the amount of trooper time spent on administrative activities and the department's use of overtime hours.

**Tax Service Examiners, State Board of: Change of Administrator Audit—  
Report No. 1999-41**

This report contains results of an audit conducted to comply with *Oregon Revised Statutes* 297.210, which requires the Audits Division to perform an audit or review when the executive head of a state agency leaves that position for any reason. We found that all appropriate actions had been taken for the former and interim administrators. We identified no instances of noncompliance with laws, rules or regulations, but we identified a weakness in control over payments.

**Treasury, Oregon State: Oregon Short-Term Fund For the Years ended June 30, 2000  
and 1999—Report No. 2000-36**

This audit was conducted for the purpose of reporting on the Oregon Short-Term Fund's (OSTF) financial statements as of and for the year ended June 30, 2000, and the OSTF's compliance with applicable laws and regulations and its internal control over financial reporting.

**Transportation, Oregon Department of: Oregon Transportation Infrastructure Fund  
For the Years Ended June 30, 1999 and 1998—Report No. 2000-13**

This report on our annual audit of the Oregon Transportation Infrastructure Fund (OTIF) concluded that the financial statements and accompanying notes as of and for the years ended June 30, 1999 and 1998 are fairly presented in accordance with generally accepted accounting principles. A review of OTIF's internal control did not note any instances of noncompliance with laws and regulations or material weaknesses in internal control over financial reporting.

**Transportation, Oregon Department of: Driver and Motor Vehicle Services Division  
Change of Director Audit—Report No. 2000-03**

This audit was conducted in compliance with *Oregon Revised Statute* 297.210, which requires the Audits Division to perform an audit or review when the executive head of a state agency retires from his or her position. Our audit was limited to determining whether appropriate actions to protect state assets were taken upon the former director's separation from the agency. We found that DMV took appropriate actions. We found no instances of noncompliance with laws, rules, or regulations.

**University System, Oregon: Oregon State University Review of Selected Operations—  
Report No. 2000-40**

This report contains the results of our audit of selected operations at Oregon State University (OSU). The report recommends improvement in OSU's management oversight of state credit card usage, equipment, payroll, surplus property disposal, transportation services, and contracts and transactions with the Oregon State University Foundation. Under Oregon's 1995 Higher Education Administrative Efficiency Act (Senate Bill 271), the Oregon University System (OUS) was made exempt from a number of state administrative regulations. The audit report's recommendations, many of which have already been implemented in response to our audit, should assist OSU management in realizing the potential for savings provided by SB 271 while adequately protecting public assets.

**University System, Oregon: Use and Management of Off-Campus Real Property—  
Report No. 2000-26**

This report concerns the Oregon University System's (OUS) management of off-campus real property. It focuses on off-campus property used by Oregon State University and the University of Oregon. The holdings include more than 22,000 acres of state-owned land, 31,000 acres of leased land, and more than 400 owned and leased buildings. The audit was performed by the accounting firm of Talbot, Korvola, and Warwick, L.L.P, under contract to the Audits Division. Overall, the audit found that off-campus lands and buildings were being used in support of OUS's education and research objectives. However, OUS's manual and automated property records contained numerous errors and inconsistencies, showing a need for improved oversight of off-campus holdings. Also, procedures used in recording sales of agricultural products and timber produced on OUS land were not documented or in accordance with generally accepted accounting procedures. The audit report includes recommendations to address these and other management issues that came to the attention of the auditors. The audit report also includes updated listings of off-campus property managed by Oregon State University and the University of Oregon.

**University System, Oregon: Year Ended June 30, 1999—Report No. 2000-07**

This report contains Oregon University System (OUS) audited financial statements, reports on its internal control structure, legal compliance, and federal financial assistance, and OUS's response to the schedule of findings and questioned costs. The audit, performed by Deloitte and Touche L.L.P. for the Oregon Audits Division, encompassed the year ended June 30, 1999.

**Veterans' Affairs, Department of: July 1, 1998, through June 30, 1999—  
Report No. 2000-02**

This report contains results of an opinion audit of the financial statements and accompanying notes of the Oregon Department of Veterans' Affairs for the year ended June 30, 1999. The audit revealed that the financial statements were fairly presented in accordance with generally

accepted accounting principles. We noted no instances of noncompliance that are required to be reported under government auditing standards. Similarly, we did not note any material weaknesses in internal control over financial reporting.

**Veterans' Affairs, Department of: Special Review of the Oregon Veterans' Home —  
Report No. 2000-17**

This audit of the Oregon Veterans' Home was requested by the Oregon Department of Veterans' Affairs. Our audit included a review of accounting controls, facility utilization and the agency's level of contract management expertise for a long-term care facility, the Oregon Veterans' Home. The audit revealed that significant accounting controls appeared to be in place and functioning effectively, measures were being taken by the department and the contractor to address the nursing staff shortage experienced by the home, and that the department had made significant progress in developing expertise at managing a contract for a long-term care facility. Recommendations include that the department use admission and departure records maintained by the department's onsite Admissions Coordinator to certify the accuracy of the contractor's census reporting, consider applying for Medicaid certification for the home in order to admit veterans in need of Medicaid assistance, consider admitting certain non-veterans to increase occupancy, and bill the contractor for the state's share of the prescription drug savings.

**Water Resources Department: Change of Director Audit—Report No. 2000-41**

The audit was conducted to comply with *Oregon Revised Statutes 297.210(2)*, which requires the Secretary of State to perform an audit or review when an agency head leaves that position for any reason. We examined the transactions and accounts directly under the former director's control for compliance with applicable laws and regulations, and reviewed the department's procedures as related to the transactions and accounts examined. We determined that the former Water Resources Department director returned all fixed assets assigned to her and that the department had terminated all access to state computer systems and property. However, our review identified improvements that could be made in the department contract management, director travel expense reimbursement, delegated authority, and vacation payout processes.

**Watershed Enhancement Board, Oregon: Grant Administration Practices—  
Report No. 2000-11**

This audit, requested by the Oregon Watershed Enhancement Board (OWEB), included an independent risk assessment of OWEB. We undertook a detailed audit of the process and program areas that we identified as having the highest audit risk. OWEB's multiple-level review process provides the opportunity for consistent evaluation of project grant applications and is appropriately based on the criteria found in statute. The report makes specific recommendations to OWEB concerning improvement of its grant management and fiscal control process over approved payments to grantees. The report also recommends that

OWEB develop a long-range plan for mitigating the risks associated with the expected increase in workload resulting from the increase in funding and grant activity.

## **MANAGEMENT LETTERS ISSUED SINCE NOVEMBER 17, 1999**

Following are brief summaries of management letters we have issued since the November 17, 1999, meeting of the Joint Legislative Audit Committee. The management letters are arranged in alphabetical order by agency name.

### **107-2000-07-01      Administrative Services, Department of: Broad-Based Risk Assessment—Management Letter No. 107-2000-07-01**

We performed a broad-based risk assessment of the Department of Administrative Services (DAS). Through this process, we identified and compiled a list of business risks that we believe warrant DAS' attention. We excluded from this analysis the Information Resource Management Division (IRMD) and the payroll services component of the State Controller's Division (OSPS) because of audit work we are planning or conducting in those divisions. The risks identified include issues such as the adequacy of DAS' support to agencies using the Statewide Financial Management System (SFMS), whether the Risk Management Division has established an appropriate level of insurance coverage for state property, motor pool fleet management considerations, and the adequacy of controls over surplus property sale.

### **603-2000-09-01      Agriculture, Department of: Long-Distance Calls and Cellular Phone Usage**

During our Change of Director Review at the department last year (Report No. 1999-43), we performed a limited review of long-distance calls and cellular phone usage. We found some long-distance calls made by department employees that may have been in violation of ORS 244.020(1)(a). We noted twenty-three long-distance calls made to the same number for one month. The number called is listed under the same name as the employee assigned the land-use line used to make the calls. We further noted that the department paid service costs for five cellular phones that were personally owned by department employees, with minimal review to ensure that the cellular phones were not being used for personal. We also noted that the department could reduce its cellular phone costs by implementing policies and procedures to avoid certain charges.

### **586-2000-01-01      Community Colleges and Workforce Development, Department of: AmeriCorps Program**

This management letter provides additional information on issues from the statewide single audit pertaining to the AmeriCorps program. We identified certain areas needing corrective action, including: (1) site monitoring activities of AmeriCorps subrecipients, (2) grant structure recording of expenditures in the statewide financial management system, (3) timing

of disbursements of federal funds to subrecipients, (4) internal control risk assessments of AmeriCorps subrecipients, and (5) password security.

**586-2000-01-02      Community Colleges and Workforce Development, Department of:  
Job Training Partnership Act**

This management letter provides additional information on issues from the statewide single audit pertaining to the Job Training Partnership Act federal award. We identified certain areas needing corrective action, including: (1) internal control over cash receipts and timeliness of transaction processing, (2) password security, (3) monitoring of service delivery areas, (4) filing of federal financial reports.

**123-2000-07-01      Economic and Community Development Department, Oregon:  
Special Public Works Fund (SPWF) and Water Fund (WF) Bond  
Programs**

During our review of department's Special Public Works Fund (SPWF) and Water Fund (WF) bond programs for the fiscal year ended June 30, 1999, we identified certain issues not considered reportable conditions as defined by auditing standards, but needing management attention. These issues related to the preparation and review of cash and trustee account reconciliations, compliance of the SPWF and WF programs with statutes governing the percentage of bond funds disbursed for urban and nonurban infrastructure projects, and the improvement of investment accounting for SPWF and WF. We recommend that department fiscal staff prepare reconciliations promptly and ensure that an appropriate supervisory level staff person is assigned the review function. For SPWF and WF compliance with statutes relating to the percentage for rural and urban projects, we recommend the next time the department is seeking to revise its statutes that it considers revising the statutes to more clearly reflect the intent of the bond programs. Finally, we recommend that fiscal staff record investments at fair value in the accounting system and financial statements and that they maintain an investment-tracking schedule.

**581-2000-06-01      Education, Department of: Uniform Chart of Accounts**

The Legislature passed House Bill 3636 during the 1997 Legislative Session, directing the Oregon Department of Education to produce comparable spending information for schools and districts. Such data was to be made accessible to the general public through the Internet. This management letter summarizes of our review of the pilot phase of the Database for Education. Fifteen school districts and one education service district reported their fiscal year 1998 and 1999 financial data to the database. The goal was to have this data conform to the revised Program Budgeting and Accounting Manual for School District and Education Service Districts in Oregon. Beginning with fiscal year 2000, all school districts and education service districts in the state will be required to report their financial data, in conformance with the manual, to the department for inclusion in the Database for Education. Our review was limited to five of the pilot project school districts. Some amounts reported on the department's pilot project web site differed from what was reported in accordance with

generally accepted accounting principles (GAAP) in each district's audited financial statements. We anticipate this information will help the department identify issues that can be addressed prior to the mandated statewide reporting of the fiscal year 2000 district financial data.

**581-2000-09-01 Education, Department of: Risk Assessment Issues Identified**

We performed a broad-based risk assessment of the Department of Education. Through this process, we identified 14 areas of risk for the Department of Education to consider. These risks were identified through interviews with department staff, other state officials, and interest groups; review of statutes, administrative rules, and other requirements; and through onsite visits at school districts across the state. School districts are relying on the department for effective leadership and guidance. To that end, communication is a critical component to achieving the quality delivery of educational services. Many of the risks identified in this letter point to areas of opportunity for the department to further increase its communication with school districts and oversight of the state's educational system.

**410-2000-02-01 Human Services, Department of: Addendum to Letter of December 13, 1999, Pertaining to Statewide Single Audit**

This is an addendum to our December 1999 letter to the Department of Human Services pertaining to statewide single audit for the fiscal year ending June 30, 1999. In that letter, we identified certain conditions needing corrective action. Our findings and recommendations were presented in the attachment accompanying that letter; however, during the course of responding, the department acquired additional information that was not available to us during the audit. Based on this additional information, we withdrew one audit finding pertaining to questioned costs of the Temporary Assistance for Needy Families Program and we revised two findings pertaining to the Block Grant for Prevention and Treatment of Substance Abuse (SAPT) program. One part of a SAPT finding was revised from a noncompliance finding to stating that the state agency responsible for managing the program had not provided us with sufficient information to demonstrate that the agency was in compliance with some of the minimum spending requirements of the SAPT program. Another SAPT finding was revised to more clearly identify internal control procedures needing corrective action.

**309350-2000-11-01 Human Services, Department of: Mental Health and Developmental Disability Services Division, Closure of Fairview Training Center— Management Letter No. 309350-2000-11-01**

In compliance with *Oregon Revised Statutes* 182.080, the Audits Division performs an audit when a state agency or other state organization is discontinued. The Fairview Training Center was an intermediate care institution run by the Department of Human Services. Founded in 1908, the institution was in operation until July 2000. This audit reviewed transactions completed as part of the institutions closure. The areas reviewed include accounts receivable, accounts payable, payroll payments, and equipment disposal. We found that the department properly transferred client trust fund accounts to approved providers. We also found the

department properly closed out Fairview accounts by collecting amounts owed. However, the audit found problems in the department's disposal of surplus property, its payment of overtime hours, its payment of unused vacation leave, and its contracting procedures.

**634-2000-10-01      Parks and Recreation Department, Oregon: Oregon Ballot Measure 66 Expenditures**

The Audits Division has completed its interim work associated with the constitutionally mandated audit of Oregon Ballot Measure 66 expenditures as they relate to Oregon Parks and Recreation Department. We performed procedures to reduce the amount of work needed when we conduct our first audit of Measure 66 funds for the biennium ending June 30, 2001. We expect to begin the audit in May or June of 2001. The purpose of our interim work was to learn the following: (1) how the agency has used or is planning to use Measure 66 funds, (2) how the funds are being accounted for, (3) what performance measures have been established to determine benefits received from the funds, and (4) what procedures are being used to collect data for reporting on performance. We found that Parks generally has everything in place for our audit, including plans, policies and procedures relating to the use of and accounting for Measure 66 funds. Although at the time of our interim work Parks had not established performance measures to determine benefits received from the funds, we later learned that work in this area was being finalized.

**459-1999-11-01      Public Employees Retirement System: Agreed-Upon Procedures for the City of Portland and Multnomah County**

As requested by officials from PERS, the City of Portland and Multnomah County, we performed agreed-upon procedures on the records of the Oregon Public Employees Retirement System for the period of July 1, 1993 to June 30, 1998. These procedures were agreed to by the management of PERS, the City, and the County, to verify that PERS correctly accounted for selected City and County employer account transactions. The results of the procedures indicate PERS correctly accounted for each of the transactions we reviewed.

**459-1999-12-02      Public Employees Retirement System: Retirement Information Management System**

During the audit of PERS' financial statements for the year ended June 30, 1999, we identified certain issues not considered reportable conditions as defined by auditing standards, but needing management attention. These issues related to certain adjustments that PERS staff make to employer reserves in the Retirement Information Management System (RIMS) when manually processing retirements. We recommended that PERS management adopt a policy directing employees to completely calculate reserve charges when processing retirement calculations, and when nominal amounts are used PERS should make timely follow-up calculations to correct the resulting misstatements. We also recommended that PERS management emphasize to staff the importance of making careful and thorough reviews when carrying out established controls requiring two staff members to review manually processed calculations and reserve charges for accuracy.

**150-2000-11-01 Revenue, Department of: Statewide Single Audit Including Selected Financial Accounts For The Year Ended June 30, 2000**

The statewide single audit that included selected financial accounts at Department of Revenue for the year ended June 30, 2000, has been completed. This statewide single audit work is not a comprehensive audit of the agency. Instead, this audit permits us to give an opinion on the statewide financial statements contained in the State of Oregon's Comprehensive Annual Financial Report and to report on internal control and the state's compliance with laws and regulations. Regular audits of the Department of Revenue will continue on a periodic basis. Based on our audit, we did not identify any reportable conditions related to the accounts and transactions that we audited.

**257-2000-10-01 State Police, Oregon: Oregon Ballot Measure 66 Expenditures**

The Audits Division has completed its interim work associated with the constitutionally mandated audit of Oregon Ballot Measure 66 expenditures as they relate to the Department of State Police. We performed procedures to reduce the amount of work needed when we conduct our first audit of Measure 66 funds for the biennium ending June 30, 2001. We expect to begin the audit in May or June of 2001. The purpose of our interim work was to learn about the following: (1) how the agency has used or is planning to use Measure 66 funds; (2) how the funds are being accounted for; (3) what performance measures have been established to determine benefits received from the funds; and (4) what procedures are being used to collect data for reporting on performance. We found that OSP generally has everything in place for our audit, including plans, policies and procedures relating to the use of and accounting for Measure 66 funds. Although at the time of our interim work OSP had not established performance measures specific to determining the benefits received from the funds, we feel that OSP's performance monitoring and data collection system can provide this information.

**575-2000-02-01 Student Assistance Commission, Oregon: Independent Accountant's Report on Applying Agreed-Upon Procedures**

During the audit of OSAC's financial statements for the year ended June 30, 1999, OSAC requested assistance in evaluating compliance with establishment of the Federal Reserve Fund and Agency Operating Fund provisions of the 1998 Reauthorization of the Higher Education Act of 1965 (Act). The procedures, known as agreed-upon procedures, noted no instances of non-compliance with the Act.

**730-1999-12-01 Department of Transportation, Oregon: Federal Highway Planning Construction Program 1999 Statewide Audit**

While auditing selected account balances and transactions for the statewide single audit at the Department of Transportation (ODOT) for the year ended June 30, 1999, the Audits Division found that ODOT needed to improve its internal control over financial reporting to ensure that amounts recorded in its Transportation Environment Accounting and Management System

(TEAMS) agree with the amounts reported in the state's Statewide Financial Management System (SFMS). Our audit disclosed that, because financial reporting errors were made in SFMS and were not detected prior to the year-end closing deadline, adjustments to several material accounts were necessary to correct amounts initially recorded in SFMS. These errors occurred because ODOT's fiscal management did not (1) review and approve year-end journal entries for estimates, accruals, and adjustments; (2) segregate duties among the preparation, entry, and release of journal entry batches into SFMS; and (3) reconcile revenue and expenditure accounts periodically between TEAMS and SFMS. We recommend that ODOT develop and implement written policies and procedures to establish effective internal control over financial reporting. To provide reasonable assurance that control objectives are being met, the policies and procedures should include preventative and detective internal control techniques, such as separation of duties, adequacy of supervision, and preparation and review of periodic reconciliations between TEAMS and SFMS.

**691-2000-10-01 Watershed Enhancement Board, Oregon: Oregon Ballot Measure 66 Expenditures**

The Audits Division has completed its interim work associated with the constitutionally mandated audit of Oregon Ballot Measure 66 expenditures as they relate to Oregon Watershed Enhancement Board. We performed procedures to reduce the amount of work needed when we conduct our first audit of Measure 66 funds for the biennium ending June 30, 2001. We expect to begin the audit in May or June of 2001. The purpose of our interim work was to learn about the following: (1) how the agency has used or is planning to use Measure 66 funds; (2) how the funds are being accounted for; (3) what performance measures have been established to determine benefits received from the funds; and (4) what procedures are being used to collect data for reporting on performance. We found that OWEB generally has everything in place for our audit, including plans, policies and procedures relating to the use of and accounting for Measure 66 funds. Although at the time of our interim work OWEB had not established performance measures to determine benefits received from the funds, we later learned that work in this area was being finalized.

**415-1999-12-02 Youth Authority, Oregon: Out Front House**

As a result of issues brought to our attention through our Government Waste Hotline, we performed a limited review of a contract awarded by OYA to Out Front House. The limited procedures performed during this review do not constitute an audit. An audit would include verifying information contained in OYA's records. These conclusions are based on documentation provided to us by OYA. In summary, we found that the hotline callers' allegations that OYA's contract with Out Front House was improperly awarded to be inconclusive, but during our review we noted areas where OYA's processes can be improved. In May 1997, OYA issued a request for proposal (RFP) for a contractor to provide residential treatment services to juvenile offenders in the Portland area who are in the state's custody. Out Front House was the successful bidder to the RFP and entered into a contract with OYA in November 1997. We received hotline calls concerning the awarding of this contract and subsequent monitoring of the contractor's performance. Although our review was

inconclusive as to the validity of some of the allegations, we did identify areas in which OYA could improve its RFP process and monitoring of contracts. We found that OYA did not use clear and consistent RFP and contract terminology and public statements appeared inconsistent with contract terminology; thoroughly review portions of the bidders' responses to the RFP; or obtain adequate documentation from the contractor to support startup costs.

## **FACTS ABOUT THE SECRETARY OF STATE AUDITS DIVISION**

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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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