

AUDIT REPORT

Oregon State Lottery: Administrative Expense Audit Follow-up



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Summary

PURPOSE

The Audits Division issued Report No. 2002-40, *Oregon State Lottery: Administrative Expense Audit* in November 2002. That audit was conducted to identify opportunities for the Oregon State Lottery (Lottery) to reduce the use of public funds for Lottery's administrative expenses. The objective of this audit was to determine whether Lottery implemented the recommendations made in that report.

RESULTS IN BRIEF

We found that Lottery addressed all of the prior audit recommendations. Of 21 recommendations made in the *Oregon State Lottery: Administrative Expense Audit*, 19 recommendations have been resolved and two have been

partially resolved as of June 2003. In addition, using information provided by Lottery, we compared expenses for meetings, training, travel, and cellular phones for January through May 2003 to expenses in these areas for January through May 2001. We found that Lottery realized cost savings for a five-month period of approximately \$500,000. Expenses decreased by 78 percent for training, 89 percent for meetings, 77 percent for travel and 50 percent for cellular phones.

AGENCY'S RESPONSE

The Oregon State Lottery agrees with all the findings and recommendations contained in this report.

Background and Introduction

The Lottery's mission is to "operate a Lottery with the highest standards of security and integrity to earn maximum profits for the people of Oregon commensurate with the public good." All proceeds from the State Lottery, excluding costs of administration and payment of prizes, is to be used for creating jobs, furthering economic development, financing public education or restoring and protecting Oregon's parks, beaches, watersheds and critical fish and wildlife habitats. In order to carry out its mission, Lottery employs more than 400 employees.

In 2002, the Audits Division conducted an audit of Lottery's administrative expenses. The audit was limited to those expenses for which Lottery management sets policy and over which it has direct control. The audit focused on approximately \$1.6 million of Lottery's 2001 administrative expenses and other additional expenses that came to our attention during the course of the audit.

The Administrative Expense Audit found that Lottery could reduce its use of public funds on administrative

expenses in various areas including meetings, training, travel, cellular phones, Employee Recognition Program, Community Relations Program, and leave reporting for partial-day absences, thus making these funds available for other public purposes. We identified approximately \$219,000 in expenses that could have been avoided and an additional \$573,000 in expenses where Lottery might have realized further cost reductions. Furthermore, we questioned whether certain types of expenses were necessary and reasonable for Lottery to achieve its mission of earning maximum profits for the people of Oregon.

On November 30, 2002, the prior Lottery director resigned. The governor appointed an interim director effective December 12, 2002, and on January 31, 2003, the interim director was permanently appointed to the Lottery director position. According to Lottery's director, in addition to implementing changes in response to the *Oregon State Lottery: Administrative Expense Audit*, Lottery has recently implemented a new budgeting process and formulated new policies and procedures.

Audit Results

We found that Lottery addressed all of the prior audit recommendations. Of 21 recommendations made in the *Oregon State Lottery: Administrative Expense Audit*, 19 recommendations have been resolved and two have been partially resolved as of the end of fieldwork (June 2003). Using information provided by Lottery, we compared expenses for meetings, training, travel, and cellular phones for January through May 2003 to expenses in these areas for January through May 2001. We found that Lottery realized cost savings for a five-month period of approximately \$500,000. Expenses decreased by 78 percent for training, 89 percent for meetings, 77 percent for travel and 50 percent for cellular phones.

The table on the following pages summarizes the status of Lottery's efforts to resolve prior audit findings. For the full context of these findings, refer to the *Oregon State Lottery: Administrative Expense Audit* (Report No. 2002-40).

Summary of Prior Audit Findings

This section summarizes the Oregon State Lottery's efforts to resolve prior audit findings included in our report No. 2002-40, *Oregon State Lottery: Administrative Expense Audit*.

Audit Findings	Audit Recommendations	Status
Meetings		
<p>Meals and Refreshments</p> <p>Lottery could reduce its administrative expenses by limiting the amount it spends to provide for or reimburse employees for non-travel meal and refreshment expenses.</p> <p>Avoidable costs identified: approximately \$16,000</p>	<p>Reduce expenses for non-travel meals and refreshments, and develop and implement a policy that limits the instances in which public funds can be used for this purpose.</p>	<p>Resolved. Lottery has developed and implemented a detailed policy that limits instances in which public funds can be used for non-travel meals and refreshments. We noted no excessive expenses incurred for non-travel meals and refreshments during the January through May 2003 period.</p>
<p>Annual Meetings and Retreats</p> <p>In 2001, Lottery spent at least \$38,000 on its annual staff meeting, which included a keynote speaker fee equating to \$6,667 an hour. Other expenses included funds spent on staff retreats.</p> <p>Avoidable costs identified: approximately \$28,100</p> <p>Potential further cost reductions identified: \$6,600</p>	<p>Significantly decrease expenses for Lottery's annual meetings and retreats.</p>	<p>Resolved. According to Lottery management, the annual meeting for fiscal year 2004 has been canceled. We found no expenses related to staff retreats for the January through May 2003 audit period.</p>
<p>Off-Site Meeting Room Rentals</p> <p>Lottery paid for off-site meeting room rentals and supplies that may have been avoided. For example, Lottery paid \$100 for an off-site meeting room for four employees to discuss certification requirements for video lottery terminals.</p> <p>Avoidable costs identified: \$6,340</p>	<p>Reduce the number of off-site meetings by further utilizing Lottery headquarters or other state agencies that provide meeting sites at no cost.</p>	<p>Resolved. Lottery has established new policy regarding off-site meeting room rentals and has reduced the number of off-site meetings. Use of any private facility meeting room or use of any meeting room that would incur a charge now requires the director's approval.</p> <p>We identified expenses for three meeting room rentals during January through May 2003 that were approved by the current administration. All three of the room rentals were for Retailer Operations Department meetings held in Canyonville, Oregon, which is south of Roseburg. Because of the distance from Salem and unavailability of meeting rooms at no cost, the room rentals for these meetings appeared reasonable.</p>

Audit Findings	Audit Recommendations	Status
Training		
<p>Total Agency Training Expenses</p> <p>In comparison with other state agencies, Lottery spent significantly more money per employee on training. Lottery recorded an average training expense of approximately \$1,550 per employee during 2001, whereas other agencies expected to spend an average of \$602 per employee per year for the 2001 to 2003 biennium.</p> <p>Estimated potential cost reductions: approximately \$402,000</p>	<p>Reduce the average amount spent per employee on training.</p>	<p>Resolved. The projected annual training amount per employee, based on the January through May 2003 expenses, is approximately \$350. If projected training expenses are achieved, Lottery will decrease its annual per employee training expense by \$1,200.</p>
<p>Training Unrelated to Lottery's Mission</p> <p>Lottery paid for training courses that did not appear to directly relate to Lottery's mission including a Fundamentals of Acting class and interior design school.</p> <p>Avoidable costs identified: \$3,800</p>	<p>Reevaluate its policy of reimbursing employees for training courses that do not directly support Lottery's mission.</p>	<p>Resolved. Lottery has rescinded its Education Assistance Program, which provided financial assistance to employees pursuing qualified certificate and certification programs and accredited degree programs. Additionally, our review of training expenses did not identify any expenses unrelated to Lottery's mission.</p>
<p>More Economical Rates Were Available</p> <p>Lottery could have reduced expenses if they had obtained speakers and seminars at more economical rates. For example, Lottery paid \$99,794 for eight days of training when similar training could have been obtained for approximately \$10,000.</p> <p>Avoidable costs identified: approximately \$99,600</p>	<p>Obtain speakers and training at more economical rates.</p>	<p>Resolved. We reviewed a total of 38 training expense transactions for the January through May 2003 period. We noted no speaker fees and no excessive training fees.</p>
Travel		
<p>First Class Air Travel</p> <p>From October 2000 through October 2001, Lottery paid first class airfare on numerous occasions for two employees traveling on official state business.</p> <p>Avoidable costs identified: \$18,868</p>	<p>Require all Lottery employees to fly coach class unless the difference is paid for from the employee's personal funds.</p>	<p>Resolved. Lottery has developed policy that states "First class travel is never authorized nor paid for by the Lottery while traveling on official business for the Lottery." We found no instances of any Lottery employees traveling first class during the January through May 2003 period.</p>

Audit Findings	Audit Recommendations	Status
<p>Use of Rental Vehicles</p> <p>Lottery employees on business travel rented vehicles when other more cost-effective options were available, such as taxis or shuttles. In addition, Lottery could have avoided hotel-parking charges.</p> <p>Avoidable costs identified: approximately \$1,570</p>	<ul style="list-style-type: none"> • Ensure that employees use alternative cost-effective transportation when available. • Further define its policy to include the type and size of rental vehicle to be used. 	<p>Resolved. We reviewed 14 out-of-state trips to determine whether rental vehicles were used. Five of the 14 trips included the use of rental vehicles; however, in all five instances, use of a rental vehicle was the most cost-effective alternative. In addition, the type and size of vehicle used was appropriate for each of the five instances noted.</p> <p>Resolved. Lottery policy now states, "The Lottery will normally only authorize the rental of a compact or compact size economy vehicle. Rental of a vehicle while traveling must be pre-approved by the employee's manager and must be the lowest cost alternative."</p>
<p>Group Travel</p> <p>Lottery could have better used public resources by reducing group travel expenses. The audit identified seven instances in which Lottery sent four or more employees to the same out-of-state business meeting or conference.</p> <p>Potential cost reduction: approximately \$11,300</p>	<p>Develop and implement a policy to limit the number of employees traveling to the same location for the same project, meeting, or conference.</p>	<p>Resolved. Lottery's current policy states Lottery will limit the number of employees traveling to the same business meetings. Our review of out-of-state travel expenses for January through May 2003 noted that no more than two employees traveled to the same location at the same time.</p>
<p>Lodging and Meal Expenses</p> <p>In 15 instances Lottery's reimbursement to employees for out-of-state trips exceeded the federal per diem allowances for lodging and meal expenses.</p> <p>Avoidable costs identified: \$4,387</p>	<p>Adopt a policy that limits out-of-state meal and lodging expenses to a per diem amount.</p>	<p>Resolved. Lottery's updated travel policy limits out-of-state meal and lodging expenses to a per diem amount. We reviewed travel expenses from January through May 2003 for seven Lottery employees and found lodging and meal expenses were within the per diem rate in each instance.</p>
<p>Personal Vehicle Mileage Reimbursement</p> <p>Lottery could have reduced expenses had it not paid for personal mileage reimbursements as a Lottery-owned or state motor pool vehicle was available.</p> <p>Avoidable costs identified: \$1,561</p>	<p>Ensure that employees use Lottery-owned vehicles when available for local business travel.</p>	<p>Resolved. Lottery's current policy states that employees will use Lottery-owned or state-owned vehicles when available for local business travel. We found no evidence that private vehicle mileage was reimbursed when Lottery-owned vehicles were available or a state-owned vehicle would have been more cost effective during the audit period from January through May 2003.</p>

Audit Findings	Audit Recommendations	Status
Cellular Phones		
<p>Cellular Phone Plans</p> <p>Lottery could realize potential savings by more effectively monitoring employee cellular use to ensure staff is assigned a service plan that best accommodates individual work needs.</p> <p>Total potential savings identified were at least \$21,080.</p>	<ul style="list-style-type: none"> • Ensure that periodic analyses of cellular service plans are performed no less than semi-annually. • Develop guidelines for reviewing cellular phone invoices to identify opportunities for cost savings. 	<p>Resolved. Lottery had analyses of cellular service plans performed in April 2002, October 2002 and April 2003. Changes to individual service plans were made as a result of the analyses.</p> <p>Resolved. Lottery has developed guidelines for managers to use in reviewing monthly cellular phone invoices.</p>
<p>Reimbursements to Employees for Business Calls Made on Personal Cellular Phones</p> <p>Lottery did not consistently follow its policy for reimbursing employees for business calls made on personal cellular phones.</p> <p>Avoidable costs identified: \$534 to \$713</p>	<ul style="list-style-type: none"> • Consistently follow its policy for reimbursement of business calls placed on personal cellular phones and strengthen its review process to prevent incorrect reimbursements. • Recover overpayments made to employees for reimbursements of cellular phone expenses. 	<p>Partially resolved. Although Lottery made efforts to update policy regarding reimbursement of business calls made on personal cellular phones, we found Lottery could further clarify the policy by consolidating reimbursement guidelines into one central policy.</p> <p>Resolved. Lottery recovered \$455 in overpayments. Additional overpayments of approximately \$95 reported in the prior report were due to unapproved roaming charges; these charges were retroactively approved by the prior administration.</p>
Other		
<p>Employee Recognition Program</p> <p>Lottery spent public funds for length-of-service awards, retirement gifts, condolences and congratulations, and employee-of-the-month and farewell celebrations.</p> <p>Avoidable costs identified: approximately \$16,600</p>	<ul style="list-style-type: none"> • Reevaluate its Employee Recognition Program and consider lowering its \$1,200 per employee threshold for special recognition awards. • Discontinue its practice of using public funds for retirement and length-of-service awards, condolences and congratulations, and employee-of-the-month and farewell celebrations. • Implement procedures to accurately account for all awards. 	<p>Resolved. Lottery management rescinded the Employee Recognition Program; the employee threshold is no longer applicable.</p> <p>Resolved. The Employee Recognition Program has been discontinued. Additionally, the policy for non-travel meals and refreshments specifies no public funds will be used for meals or refreshments for retirement parties. The policy further stipulates purchases of decorations, plants/flowers, cards, gifts and party favors are not allowed. We did not find any expenses for retirement, length-of-service awards, condolences and congratulations, or employee-of-the-month and farewell celebrations for January through May 2003.</p> <p>Resolved. The recommendation is no longer applicable; the Employee Recognition Program, including the award program, has been discontinued.</p>

Audit Findings	Audit Recommendations	Status
<p>Community Relations Program</p> <p>Lottery was not able to effectively demonstrate how the Community Relations Program expenses met Lottery's mission. In addition, Lottery's management of the program did not ensure that the availability of funds for sponsorships and scholarships was communicated impartially to all Oregon communities.</p> <p>Potential cost reduction: approximately \$153,000</p>	<p>Reevaluate the program to determine if it meets Lottery's business purpose, and, if so, document how. If it is determined that the program does meet Lottery's business purpose, Lottery management should improve controls over the program to ensure that the program is available to all qualified recipients and to strengthen the selection process.</p>	<p>Resolved. According to Lottery management, the Community Relations Program has been discontinued. Further, Lottery has continued to make payments to those entities with which Lottery has an open agreement; once the agreement period is over, additional payments will not be made.</p> <p>We reviewed Community Relations Program expenses during January through May 2003, totaling \$48,086. We found no payments made to organizations other than those noted in the prior audit. In addition, we reviewed copies of letters from Lottery to former Community Relations Program participants stating Lottery has determined that the request for participation in the Community Relations Program does not meet the "current criteria for helping the Lottery achieve its business goals."</p>
<p>Partial Day Absences</p> <p>Lottery requires its non-exempt employees to use their accrued leave balances for all absences, but does not require its exempt employees to use their vacation or sick leave balances for partial day absences. Because of this policy, Lottery's exempt employees may receive benefits that are not available to Lottery's non-exempt employees and other state employees.</p>	<p>Lottery management should develop and implement a partial-day absence leave policy that ensures Lottery's exempt employees do not receive benefits that are not available to its non-exempt employees and other state employees.</p>	<p>Partially Resolved. Lottery management has rescinded its partial-day absence policy as of July 1, 2003. As such, agency-wide implementation had not yet been implemented as of the end of fieldwork (June 2003). However, Lottery management provided evidence that showed 22 exempt employees voluntarily used their accrued leave balances for partial day absences during the January through June 2003 period.</p>

Oregon State Lottery's Response

The Oregon Lottery appreciates the work performed by the audit team. We agree with all of the findings and recommendations contained in this report. Since the date of the audit fieldwork (June 2003), one of the partially resolved audit findings –partial day absences –has been resolved. Effective July 1, 2003, a policy was issued requiring all Lottery employees to record partial day absences and to use accrued leave for those absences. The other partially resolved audit finding – cellular phone reimbursement –will be fully resolved when we consolidate our cellular phone reimbursement guidelines into one central E-Media policy. We expect to complete that project before the end of the year.

Objectives, Scope and Methodology

The objective of our audit was to determine whether Lottery implemented the recommendations identified in the prior audit report, *Oregon State Lottery: Administrative Expense Audit*, issued in November 2002.

Our audit included a review of administrative expenses for the

period January 2003 through May 2003 in the following areas: meetings, training, travel, cellular phones, Employee Recognition Program, and Community Relations Program. We reviewed supporting documentation for all meeting and Community Relations Program expenses and for judgmentally selected transactions in the other areas. During our audit we interviewed various Lottery personnel, and reviewed updated agency policies and procedures relating to our objective, including Lottery's current policy and

practice for leave reporting for partial day absences.

We conducted this audit according to generally accepted government auditing standards. Fieldwork was conducted during June 2003.

This report, which is a public record, is intended to promote the best possible management of public resources. Copies may be obtained by mail at Oregon Audits Division, Public Service Building, Salem, Oregon 97310, by phone at 503-986-2255 and 800-336-8218 (hotline), or internet at Audits.Hotline@state.or.us and <http://www.sos.state.or.us/audits/audithp.htm>

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The courtesies and cooperation extended by the officials and staff of the Oregon State Lottery were commendable and much appreciated.

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