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Oregon Audits Division

State Auditor's Report 2003-2005 Biennium

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Bill Bradbury, Secretary of State

Cathy Pollino, State Auditor



Auditing to protect the public interest and improve Oregon government.

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Mission:

To protect the public interest and improve Oregon government

Vision:

To be the place for people to turn to get independent, reliable, useful information on Oregon government

Goals:

Goal #1 – Quality Products: Citizens, the legislature, and government managers are our customers. We are dedicated to producing a quality product that meets our customers' needs in a timely, accurate, professional, and efficient manner.

Goal #2 – Quality Employees: Our employees are our only resource. We are dedicated to enhancing our employees' skills through education and training, providing the tools necessary to best utilize those skills, and expanding opportunities for our staffs' professional development.

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Overview

“The Secretary of State shall keep a fair record of the official acts of the Legislative Assembly, the Executive Department of the State; and shall when required lay the same, and all matters relative thereto before either branch of the Legislative Assembly. He shall be by virtue of his office, Auditor of Public Accounts, and shall perform such other duties as shall be assigned to him by law.”

- Oregon Constitution, Article VI, Section 2

Secretary of State – Auditor of Public Accounts

In 1929, the Legislative Assembly established the Audits Division to carry out the duties of the Secretary of State as the Constitutional Auditor of Public Accounts. The Audits Division is the only independent auditing organization in the state with authority to review programs in all three branches of state government and other organizations that receive state money.

The Audits Division fulfills its duty as Auditor of Public Accounts by performing financial, performance, and information technology audits. This division also manages the state’s Municipal Audit Program, and the State’s Fraud, Waste, and Abuse Hotline.

Financial audits provide third parties with assurance on the accuracy and reliability of financial information, and make recommendations to improve the processes and controls used to manage the state’s resources. A major responsibility of the division is the yearly audit of the state’s annual financial statements. This audit, the largest of public funds in the state, complies with the Single Audit Act of 1984, which requires such an audit annually as a condition of eligibility for more than \$6 billion in federal funds.

Performance audits provide decision makers with management information on government operations to aid decision-making, and make recommendations to help government work smarter and improve performance. These audits help determine whether agencies acquire, protect, and use their resources economically and efficiently, and whether they are achieving desired results.

Information technology audits provide an independent assessment of the processes and controls governing the state’s information systems and make recommendations to improve system efficiency, effectiveness, confidentiality, integrity, availability, and reliability.

Finally, the division conducts special studies and investigations regarding the misuse of state resources. Our role is to ensure that losses are fully uncovered and to make recommendations to prevent future occurrences.



History

Oregon's Auditing Tradition

The Oregon Territorial Statute, in defining the duties of the Territorial Auditor, said that it is the duty of the office to do “as he may deem expedient for the support of public credit, for lessening the public expenses, for using public money to the best advantage, for promoting frugality and economy in public offices, and generally, for the better management and more perfect understanding of the fiscal affairs of the Territory.”

The first audits in Oregon focused mainly on financial compliance. (In one case, the Territorial Auditor sued Jackson County because it was late with its tax reporting.) However, by the Eighth Territorial Session, Territorial Auditor B.F. Bonham began producing what we would now call “performance audits.” In one report, he recommended that the keeper of the penitentiary work the convicts, thus making them a source of revenue rather than a drain on the taxpayers.

Interestingly enough, when Oregon’s Attorney General later was asked to clarify the powers of the Secretary of State in terms of auditing authority, he concluded that the “powers in the Territorial Statutes were incorporated by Article VI of the Oregon Constitution which makes the Secretary of State ‘Auditor of Public Accounts.’”

Therefore, when it comes to making recommendations on “lessening public expenses, ...for using public money for the best advantage and promoting frugality in government,” the Attorney General concluded the Secretary of State not only has “virtually unlimited discretion concerning what to include in such reports,” but also has the “duty” to make recommendations to the legislature.

Ensuring accountability in government and “lessening the public expenses” is part of a 150-year-old tradition in Oregon that we are proud to continue.



Financial Audits

The need for our traditional audit services remains strong.

Ensuring Fiscal Accountability

Oregon's financial system is very large and complex. One of the primary audits we conduct each year is the single audit of the state's financial statements. Although this is formally called the single audit, it includes both our review of the state's Comprehensive Annual Financial Report and the state's internal controls and compliance with federal funding requirements, which are reported on separately. We perform the single audit to satisfy the Legislature, the governor, and citizens that the state's financial statements are presented fairly and that significant deficiencies in its fiscal systems are identified and corrected. We also conduct this audit to fulfill the federal government's mandate to audit the more than \$6 billion it provides the state each year. Because underwriters, bond rating companies, and potential investors may rely on these statements and opinions, the audit work we perform represents a critical element in the state's financial system.

Recent business failures have shaken public confidence in financial reporting and auditing. To restore that confidence, the accounting and auditing professions have moved to strengthen the rules that guide those who prepare financial statements and those who audit them. The quality control processes that apply to the audit profession are also being strengthened. We believe credible financial reporting is the cornerstone of public confidence in the institutions of government.

During this past biennium, we twice completed our largest audit, the annual audit of the state's Comprehensive Annual Financial Report, as well as our annual audits on federal compliance and internal control, and 18 financial statement opinion audits. We also made strategic use of private sector auditors to supplement the work of our financial audit staff and to provide additional expertise where needed. During fiscal years 2003-2005, we contracted out 20 financial statement opinion audits and 12 audits of federal programs. In compliance with ORS 297.210(2), we completed 21 change-of-director reviews. Finally, we completed 11 resource management audits, which focus on improving fiscal controls, and two mandated compliance audits.

2003-05 In-House Financial Audits

- *Oregon State Treasury: Oregon Short-Term Fund (#2003-35), September 3, 2003*
- *Oregon Housing and Community Services Department (#2003-40), November 21, 2003*
- *Oregon Department of Veterans' Affairs (#2003-41), December 30, 2003*
- *State of Oregon Comprehensive Annual Report for 2003 (#2003-42), December 12, 2003*
- *Public Employees Retirement System (#2003-44), December 12, 2003*
- *Oregon State Lottery Commission (#2004-03), February 26, 2004*
- *Federal Compliance and Internal Control (#2004-08), February 27, 2004*
- *Office of Energy, Small Scale Energy Loan Program (#2004-10), March 9, 2004*
- *Oregon Economic and Community Development Department Special Public Works Fund (#2004-17), April 21, 2004*
- *Columbia River Gorge Commission (#2004-21), June 3, 2004*
- *Department of Transportation: Oregon Transportation Infrastructure Bank (#2004-22), June 3, 2004*
- *Oregon Short-Term Fund An Investment Pool (#2004-25), August 31, 2004*
- *Housing and Community Services Department (#2004-34), November 12, 2004*
- *Department of Veterans' Affairs (#2004-35), November 22, 2004*
- *Public Employees Retirement System (#2003-44), December 12, 2003*
- *State of Oregon Comprehensive Annual Report for 2003 (#2003-42), December 12, 2003*
- *Oregon State Lottery Commission (#2005-01 and #177-2004-08-01), January 3, 2005*
- *Statewide Single Audit Report (#2005-07), February 28, 2005*
- *Office of Energy, Small Scale Energy Loan Program (#2005-09), March 22, 2005*
- *Columbia River Gorge Commission (#2005-13), April 21, 2005*
- *Oregon Economic and Community Development Department Special Public Works Fund and Water Fund (#2005-14 and #123-2005-04-01), April 29, 2005*
- *Public Employees Retirement System (#459-2005-01-01), January 19, 2005*

2003-05 Contracted Financial Audits

- *Oregon State Bar: Professional Liability Fund (#2003-22), July 1, 2003*
- *State Accident and Insurance Fund Corporation – Statutory Basis Financial Statements (#2003-31), August 27, 2003*
- *State Accident and Insurance Fund Corporation (#2003-32), August 27, 2003*
- *Oregon Beef Council (#2003-37), October 31, 2003*
- *Oregon University System (#2003-43), October 15, 2003*
- *Oregon Board of Optometry (#2004-05), February 12, 2004*
- *State Board of Geologist Examiners (#2004-06), February 18, 2004*
- *Oregon Student Assistance Commission: Federal Family Education Loan Program Fund Statements (#2004-07), February 23, 2004*
- *State Board of Examiners for Engineering and Land Surveying (#2004-11), March 29, 2004*
- *State Board of Architect Examiners (#2004-12), March 29, 2004*
- *State Landscape Architects Board (#2004-13), April 12, 2004*



2003-05 Contracted Financial Audits (cont.)

- *State Board of Message Therapists* (#2004-14), April 12, 2004
- *Physical Therapists Licensing Board* (#2004-15), April 12, 2004
- *SAIF Corporation Statutory Basis Financial Statements* (#2004-27), September 22, 2004
- *SAIF Corporation GAAP Financial Statements* (#2004-28), September 22, 2004
- *Oregon Beef Council* (#2004-29), October 7, 2004
- *Oregon University System* (#2005-02), January 5, 2005
- *Appraiser Certification and Licensure Board* (#2005-05 and #161-2004-10-01), January 19, 2005
- *State Landscape Contractors Board* (#2005-06 and #808-2004-10-01), January 19, 2005
- *Oregon Student Assistance Commission: Federal Family Education Loan Program* (#2005-11), April 5, 2005

2003-05 Change of Director Audits or Reviews

- *Department of Land Conservation and Development* (#2003-27 and #660-2003-07-01), August 1, 2003
- *Oregon Department of Forestry* (#629-2003-12-01), December 18, 2003
- *Oregon Department of Veterans' Affairs* (#274-2004-01-01), January 15, 2004
- *Department of Public Safety Standards and Training* (#259-2004-03-01), March 9, 2004
- *Department of Geology and Mineral Industries* (#632-2004-03-01), March 24, 2004
- *Public Employees' Retirement System* (#459-2004-05-01), May 11, 2004
- *Department of Human Services* (#410-2004-05-01), May 19, 2004
- *Department of Administrative Services* (#107-2004-07-01), July 1, 2004
- *Public Employees' Retirement System* (#459-2004-08-01), August 4, 2004
- *Department of Corrections* (#291-2004-08-01), August 17, 2004
- *Oregon Board of Massage Therapists* (#968-2004-11-01), November 15, 2004
- *Oregon Youth Authority* (#415-2004-12-01)
- *Oregon State Lottery* (#177-2004-12-01), December 20, 2004
- *Oregon University System* (#580-2005-02-01 and #580-2005-02-02), February 8, 2005
- *Water Resources Department* (#690-2005-02-01), February 24, 2005
- *Oregon Military Department* (#248-2005-04-01), April 1, 2005
- *Oregon Commission on Children and Families* (#423-2005-01-01), April 7, 2005
- *Oregon Watershed Enhancement Board* (#691-2005-04-01), April 12, 2005
- *Oregon Student Assistance Commission* (#575-2005-04-01), April 21, 2005
- *Department of Aviation* (#109-2005-05-01), May 16, 2005
- *Oregon Parks and Recreation Department* (#634-2005-05-01), May 26, 2005

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2003-05 Resource Management Audits

- Department of Agriculture: Risk Assessment of Cash Controls (#603-2003-07-01), July 2, 2003 - We found opportunities for improvements in the handling and recording of cash receipts, in the segregation of certain duties, and in the management of a revolving fund.
- Oregon Public Utility Commission: Risk Assessment of Cash Controls (#860-2003-07-01), July 17, 2003 - We found opportunities for improvements in the recording of receivables and in the review and timeliness of cash reconciliations.
- Department of Justice: Cash Controls Review (#2003-33 and #137-2003-09-01), September 9, 2003 - We found that controls over the receipting, handling and disbursement of cash were in place and were operating as intended.
- Oregon Parks and Recreation Department: Capital and Non-Capital Assets (#2003-26), July 31, 2003- We found that department management did not make accounting for assets a priority. Specifically, capital assets were not properly recorded, infrastructure assets were overstated, assets were not depreciated in accordance with state policy, accounting estimates for the useful lives of assets were not periodically reevaluated, reconciliations were not performed timely, and non-capital assets were inappropriately capitalized and were not adequately controlled.
- Oregon Department of Forestry: Capital and Non-Capital Assets (#2003-28 and #629-2003-07-01), August 5, 2003 - We found that the department had controls in place over capital and non-capital assets to ensure that the assets are accurately and properly recorded, and asset records are in compliance with state policy. We found, however, that the department's bridges were undervalued by approximately \$122,800 because the department did not use a consistent methodology when applying accounting estimates. We noted that the department could improve its policies over useful life estimates and non-capital assets.
- Department of Human Service Mental Health and Addiction Services Program: Capital and Non-Capital Assets (#2003-34), September 2, 2003 - We found that the department did not have a detailed list of capital assets and had not conducted annual inventories at the Eastern Oregon Psychiatric and Training Centers. We also found that the department included an amount in its Institutional Revenue Service fund that may not have represented actual assets, and had not accurately and consistently calculated depreciation for some assets.
- Department of Administrative Services: Surplus Property Financial Controls Audit (#2003-29 and #107-2003-07-01), August 5, 2003 - We found that the department's controls over cash handling, disbursements, and inventory appeared to be sufficient to safeguard state assets in preventing loss or abuse of state funds.

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2003-05 Resource Management Audits (cont.)

- Oregon Department of Fish and Wildlife: Audit of Capital and Non-Capital Assets (#2004-26), September 1, 2004 - Overall, we found that the department has controls in place over capital and non-capital assets to ensure that the assets are accurately and properly recorded in compliance with state policies. However, we did identify areas for improvement, such as useful life estimates, salvage value calculations, and depreciation recording.
- Department of Corrections – Inmate Trust Fund (#2004-31), October 29, 2004 - The objective of this audit was to determine if the department had adequate controls over inmate trust funds and maintained adequate supporting documentation for recorded transactions. We found that the department could improve its handling of trust funds by performing monthly cash reconciliations, improving controls over check stock, and retaining documentation authorizing expenses posted to inmate trust fund accounts.
- Oregon State Board of Massage Therapists: Review of Internal Controls Over Revenues and Expenditures (#968-2005-05-01), May 12, 2005 – The objective of this audit was to review internal controls over revenues and expenditures. We identified approximately \$6,570 in questionable expenditures, as well as significant control weaknesses over reimbursements, payroll processing, and cash receipts and disbursements. We also found that the board’s license and cashiering database is unreliable.
- Oregon Commission on Children and Families: Cash Disbursements Audit (#423-2005-05-01), May 18, 2005 – The objective of this audit was to review internal controls over cash disbursements. We found that controls were properly designed and placed in operation.

2003-05 Financial Compliance Audits

- Oregon Department of Aviation: Expenditure Audit Fiscal Year 2002 (#2003-30), August 14, 2003- The purpose of this audit was to comply with Oregon Revised Statute 835.065, which requires an audit of all necessary expenses of the Oregon Department of Aviation. We tested controls over accounting system access, travel expenditures, state cell phone use, payroll, contracting procedures and contract expenditures. We found that most of the department's controls were in place, and the department was in compliance with applicable laws and requirements. We identified opportunities, however, to improve controls over cash handling, infrastructure valuation, and facilities maintenance contracting.



2003-05 Financial Compliance Audits (cont.)

- *Compliance Audit of Measure 66 for 2001-2003 Biennium* (#2005-17, #257-2005-05-01, #340-2005-05-01, #603-2005-05-01, #635-2005-05-01, and #691-2005-05-01), May 31, 2005 - The purpose of this audit was to fulfill the constitutional requirement that an independent audit be performed of the agencies receiving and expending Measure 66 funds. State agencies spent approximately \$99 million in Measure 66 funds between July 1, 2001, and June 30, 2003. For the Parks Subaccount and the Restoration and Protection Subaccount, the agencies substantially complied with the intended uses of those funds as stated in the Oregon Constitution and Oregon Revised Statutes and based on Department of Justice opinions. Expenditures from the Restoration and Protection Research Fund did not substantially comply because, currently, only 20 percent of the funds expended were capital in nature. Final compliance with the requirement that at least 65 percent be capital expenditures will not be determined until the year 2014. We also found that agencies have developed performance measures related to Measure 66. However, we concluded there is no overall performance measure to determine if restoration and protection of wild salmonid populations, watersheds, fish and wildlife habitats and water quality has or will occur. As a result, we will not be able to conclude on the overall effectiveness of the expenditure of Measure 66 funds due to the mixture of funds used for these programs and the multitude of factors that impact the ultimate outcomes.



Performance Audits

Earning public confidence requires the state to demonstrate rigorous and objective scrutiny of the performance of government.

Managing Risks

Government continues to adjust its activities and methods of program delivery, and these changes are occurring at a time of difficult financial pressures and economic uncertainty. Any organization undertaking significant change is open to numerous risks that must be managed and mitigated.

Here in Oregon, we are experiencing fluctuations in the size of public programs, which in turn impacts management capacity to deal with significant change. Alternative service delivery arrangements, such as contracting out, require that managers obtain new skills to deal with new risks and to monitor whether public policy goals are achieved efficiently. During this period of change, agencies risk being less effective as staff adapt to new roles and responsibilities. Additionally, when significant change occurs during a period of financial pressure and economic uncertainty, organizations often respond by making decisions with greater speed and with less attention to detail than they would normally. In light of these risks, it is more important than ever that the Audits Division carries out its duty of ensuring the effective and responsible delivery of essential public services.

Performance auditing is an objective and systematic examination of evidence to provide an independent assessment of a government organization, program, activity, or function. The goal of these audits is to provide information to improve public accountability and facilitate decision-making by parties with responsibility for overseeing or initiating corrective action. The issues that performance audits cover vary, but generally either address whether agencies are operating economically and efficiently, or whether they are achieving desired results.

To facilitate legislative oversight of agencies, we report quarterly to the Joint Legislative Audit Committee and to other legislative committees, depending on the subject matter of our audits. For certain audits, agency directors also report their action plans in response to our audit recommendations to the committees.

During fiscal years 2003-2005, we released 15 performance audit reports. Of those, ten audits focused on fiscal accountability to ensure that public funds were used economically and efficiently, and five audits were informational reports designed to facilitate decision-making. The fiscal accountability audits identified cost savings or questioned costs totaling more than \$43 million, or \$31 for every \$1 of audit costs.



2003-05 Fiscal Accountability Audits

- *Oregon Employment Department: Unemployment Insurance (#2003-25), July 9, 2003* - The purpose of this audit was to determine if opportunities existed for the department to use existing data sources in administering the Unemployment Insurance program to increase the collection of taxes owed and the recovery of benefit overpayments. We found that the following data sources could help the department improve its procedures to identify tax underpayments and benefit overpayments: corrections data, social security administration data, internal revenue service data, and state business licensing data. For example, by matching unemployment claims with corrections data, we found 37 inmates that claimed unemployment benefits, which resulted in \$45,400 in questioned costs. We also identified \$1,500 in unemployment benefits paid to deceased persons. We were unable to estimate the potential collections from the other data sources, but found that others states have had success accessing this data. By increasing the collection of taxes due and recovery of overpayments, the department will maximize the unemployment insurance trust fund balance and help control employer tax rates.
- *Oregon Department of Forestry: Review of Selected Fire Suppression Aircraft Expenditures (#2003-38), November 6, 2003*- The purpose of this audit was to determine whether the department could reduce its fire suppression costs by acquiring selected aircraft rather than leasing them. We found that the department could potentially reduce its fire suppression costs by acquiring medium-sized helicopters available through the Federal Excess Personal Property program rather than leasing them. Several other states have found it advantageous, in terms of cost and responsiveness, to operate firefighting helicopters themselves and to supplement their needs with private contract operators. For each of these states, the hourly costs to operate and maintain medium-sized firefighting helicopters (averaging \$730 per hour) were significantly less than the rates the department paid to private operators for similar equipment (averaging \$1,900 per hour). If the department incurs costs similar to those reported by other states and averages 200 hours of use per year, we estimate it could save nearly \$1 million over a five-year period for each medium-sized helicopter it acquires.
- *Two-Way Radio Communications: Opportunities Exist to Strengthen Planning and Coordination (#2003-39), November 10, 2003*- Two-way radios provide an essential communications link for many government organizations operating in Oregon. The purpose of our audit was to determine if these systems are meeting user needs at the least possible cost. State, local, and federal agencies have made substantial investments over the decades to develop two-way radio systems, which are necessary for the conduct of public business. We found overlapping and duplicative systems, many of which are incompatible with other groups, agencies, or jurisdictions. These problems severely limit the usefulness of radio communications, especially in situations that demand large-scale immediate interagency communications and coordination. We also found that it may be possible to achieve cost savings on the purchase and maintenance of replacement systems through improved agency coordination and cooperation.



2003-05 Fiscal Accountability Audits (cont.)

- Department of Revenue – Tobacco Compliance Unit (#2004-01), January 23, 2004 - Tobacco plays an increasingly important role in financing Oregon state operations. Revenue from tobacco taxes and Tobacco Master Settlement Agreement funds totaled \$325 million in fiscal year 2003. The department's Tobacco Compliance Unit (TCU), a part of the legislatively created Tobacco Task Force, is responsible for identifying and collecting tobacco taxes. We found that the department can more effectively deploy and manage its resources in support of the Tobacco Task Force's mission. We also identified \$16,000 in penalty and interest that was not charged and up to \$319,000 in unpaid floor taxes.
- Oregon State Hospital and Oregon State Penitentiary: Use of Overtime (#2004-04), February 6, 2004 – During the 2001-2003 biennium state agencies incurred approximately \$98 million in overtime expenditures for approximately 2.8 million overtime hours. We found that two state entities could reduce personnel costs by approximately \$1.7 million per biennium if they more effectively managed their use of overtime. We found that the Oregon State Hospital and the Oregon State Penitentiary were using overtime, paid at time and a half, to fill predictable workload needs. Our audit also identified instances in which individuals worked excessive amounts of overtime.
- Oregon State Land Board – Rangeland Revenue for the Common School Fund (#2004-09), March 2, 2004 - State-owned rangelands are a part of the original land grant received when the state was admitted to the Union. The state is required to use the land and any proceeds from the sale of the land to support public schools. We found that in fiscal years 1998 through 2002, rangelands lost money for schools. The financial loss was at least \$13,115. If all rangelands had been sold and the proceeds invested, we conservatively estimate that the Common School Fund would have received during this time period at least \$3.0 million to \$4.2 million more income. Alternatively, if market lease rates had been charged for state rangeland leases during this time period, we estimate that the Common School Fund would have earned \$1.45 million more.
- Department of Administrative Services: Sick Leave Management (#2004-30), October 12, 2004 - The purpose of this audit was to compare sick leave use by Oregon state employees with that of workers in other state and local governments, and identify strategies that other employers are using to reduce absenteeism. We found that Oregon state employees use sick leave at a rate that is higher than the average of other state and local governments. For the two-year period from July 2001 through June 2003, we estimated the value of this excess sick leave was between \$14 and \$16 million. Our audit identified opportunities for the state of Oregon to improve productivity and reduce sick leave use by developing effective absence control programs.

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2003-05 Fiscal Accountability Audits (cont.)

- *Oregon University System – Review of Payroll Increases (#2004-32), November 10, 2004* – This audit was triggered by an allegation that the university system made inappropriate use of the reclassification process to increase employee pay in order to evade the statewide pay freeze. During the course of that review, we noted other pay increases were occurring. The objective of this audit was to determine if pay increases granted by the Oregon University System were in compliance with the legislative intent of the 2003-05 statewide pay-freeze. Governor Ted Kulongoski's January 2003 budget proposal for 2003-05 included a pay freeze for state employees. In addition, the university system's budget included a budget note, first proposed on May 27, 2003, that stated that the university system's budget did not support any increases in salaries, wages, or benefits for the employees of the Department during the 2003-05 biennium. We found that some employees had received pay increases beginning after June 30, 2003. We identified approximately \$810,000 in increased costs for the biennium as a result of 126 questionable raises. Further, these raises will continue to increase payroll costs in future biennia. We were unable to project the costs to the entire population because we found payroll system coding was inconsistent within and among the various campuses.
- *Department of Human Services: Medicaid Fee-For-Service Prescription Drug Cost Savings Analysis (#2005-08), March 10, 2005* - The purpose of the audit was to determine whether opportunities exist to reduce the cost of Oregon's Medicaid fee-for-service prescription drugs. Our analysis of a portion of the Medicaid fee-for-service drugs paid for by the department found that from January 1, 2003 through March 31, 2004, the department could have saved approximately \$11.7 million in total funds. This saving could have resulted by using a preferred drug list and prior authorization. Of this amount, the department could have saved approximately \$2.3 million on the four original Plan Drug List therapeutic drug classes, and approximately \$9.4 million had antidepressant and antipsychotic class drugs been included on the Plan Drug List. During this time, the four original Plan Drug List therapeutic drug classes accounted for eight percent of all fee-for-service prescription drug costs, and antidepressant and atypical antipsychotic class drugs accounted for 41 percent. Additional savings could be achieved from supplemental rebates from drug manufacturers. However, we were unable to estimate these additional savings.
- *Oregon University System: Written-Off Debt Review (#2005-10 and #580-2005-03-01), March 22, 2005* - The purpose of the audit was to determine if previously written-off debt by the Oregon University System should be reassessed due to the changing income circumstances of the debtors. For fiscal year 2004, we found approximately 1,700 of 4,700 individuals (36 percent) with state university written-off debts were working in Oregon. Of the 1,700 working individuals, approximately 1,225, with a combined written-off debt totaling approximately \$1.12 million, earned more than the federal poverty guidelines of \$9,310 for the year or \$2,328 for a quarter. Over 60 percent of the 1,225 debtors had average quarterly income that was more than two times the federal poverty guidelines. During the course of this audit, the Department of Revenue asked us to conduct a similar test on its Other Agency Accounts debts. We found approximately 27,700 debtors (51 percent) had worked in Oregon during fiscal year 2004. Approximately 10,150 of the individuals earned more than the 2004 federal poverty guidelines. The total combined debt owed by the 10,150 individuals was approximately \$11 million.



2003-05 Informational Reports

- *Oregon State Lottery: Administrative Expense Audit Follow-Up (#2003-36), September 3, 2003* - 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 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. We found that Lottery addressed all of the prior audit recommendations. 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.
- *Oregon State Lottery: Video Lottery Compensation in the United States and Canada (2004-02), January 29, 2004* - In November 2003, the Oregon State Lottery asked us to conduct a survey of how states and Canadian provinces compensate video lottery retailers. We surveyed nine states and nine Canadian provinces that have video lottery or gaming. This report presents for each jurisdiction the types of establishments that have video poker, the types of games offered, the responsibilities of the retailers, and the retailer compensation rates, including any changes to compensation rates since inception. We found that eight jurisdictions have video lottery operations similar to Oregon. Retailer commissions in these jurisdictions were generally lower than those in Oregon. They ranged from 15 percent to 25 percent of the cash remaining after payment of prizes, while retailers in Oregon received up to 35 percent.
- *Oregon Department of Education: Analysis of Spending for K-12 Student Support Services (#2004-19), May 12, 2004* - In December 2002, we issued report 2002-45 that provided a snapshot of statewide spending on elementary and secondary education in Oregon. That report found that Oregon's spending was higher than most other states, mostly due to a higher than average spending for support services. The purpose of this audit was to analyze spending for support services to identify methods that individual school districts may have developed to control spending. Oregon's spending on support services continued at a higher level than in most other states, according to the most recent data available for the 2000-2001 school year. Consequently, a smaller portion of each dollar was available to be spent on instruction. We estimated that if all districts had spent the average amount in specific support services areas, more than \$162 million for that year could have been redirected for other purposes such as instructional activities. Our audit found that improved and more detailed information about school district spending could strengthen public accountability and encourage the most efficient use of available resources. We also found that Oregon school districts have exercised a variety of strategies for controlling costs, which are outlined in the report.



2003-05 Informational Reports (cont.)

- *Debt Collections: Progress Made But Opportunities for Improvement Still Exist* (#2004-24), August 16, 2004 - In 1997, we issued a report that identified improvements that would increase collections and decrease costs. While progress has been made, we identified additional opportunities for improvement. We found insufficient staffing and large caseloads were preventing timely follow up on delinquent accounts; revenue agents at one agency did not initiate any direct telephone contact with the department's debtors; another's oversight of its accounts assigned to private collection agencies could be strengthened; systematic assessment and evaluation of private collection agency performance issues was limited; and assigning debtor accounts to private collection agencies from some state agency internal collection units may not be cost effective.
- *Department of Human Services: Oregon Office of Medical Assistance Programs – Independent Accountant's Report on an Examination for Oregon's Pharmacy Benefit Administrator's Processing of Medicaid Prescription Drug Claims and Rebates* (#2005-16), May 26, 2005 – We received a legislative directive to contract for an audit of the state's pharmacy benefit administrator (PBA). This audit was performed under contract with Moss Adams, LLP. The auditors found that the state's PBA priced pharmacy claims submitted to the state for prescription drug expenses and associated services provided for Oregon's Medicaid population in accordance with its contract and prescription drug price agreements. Further, they found that the state's PBA claimed, collected and allocated the Medicaid rebates due from pharmaceutical manufacturers in accordance with its contract and prescription drug price and rebate agreements.

2003-05 Management Risk Assessments

- *Department of Human Services: Seniors and People with Disabilities Oregon Area Agencies on Aging* (#410-2003-08-01), August 4, 2003 – This review identified five management risks surrounding Seniors and People with Disabilities' oversight of Area Agencies on Aging,
- *Oregon Department of Education: Management Risk Assessment* (#581-2003-11-01), November 5, 2003 – This review identified eight general, operations, and instructional services management risks and followed up on prior audit findings.
- *Department of Consumer and Business Services* (#440-2004-08-01), August 13, 2004 – This review identified two management risks in the Building Codes Division and one risk in the Oregon Medical Insurance Pool.
- *Office of Public Defense Services* (#404-2005-02-01), February 9, 2005 – This review identified two management risks at the Office of Public Defense Services.
- *Department of Corrections: Risk Assessment of Contracting Practices* (#291-2005-04-01), April 25, 2005 - This review identified contracting risks at the department and identified five duplicate payments totaling \$1,650 made by the Parole Board.



Information Technology Audits

As information technology proliferates throughout organizations, new or unforeseen business risks emerge. The integration of technology into nearly all aspects of business poses opportunities and challenges for all.

Establishing Adequate Controls

Computers are an integral part of state government, processing billions of dollars in financial transactions each year and helping control the operations of state agencies. Since financial transactions and confidential information are processed using computer systems, audits of information system controls and activities are necessary to ensure that computer processing is secure and accurate.

Information technology audits fall into four major categories: general control reviews, application control reviews, security reviews, or system development reviews. General control reviews evaluate the controls designed to protect the environment in which systems operate, including system backup, physical and logical security, and disaster recovery procedures. Application control reviews look at specific computer applications to see if the data remains complete, accurate, and valid during input, update, processing, and storage. Security reviews can either focus on an agency's overall security framework or on specific aspects of security. Finally, system development reviews evaluate controls governing acquisition, implementation, and maintenance of computer systems.

During fiscal years 2003-2005, we issued seven information technology reports. Most of these audits focused on general and application controls, security, and system development over mission critical information systems.



2003-05 Information Technology Audits

- Oregon University System Application Controls Review of Oregon State University Banner Student Information System (2004-18), April 29, 2004 - The purpose of the audit was to evaluate whether selected data processed by Oregon State University's Banner Student Information System remained complete, accurate, and valid throughout the data management process, and to evaluate the processes used for change management, physical and logical security, and disaster recovery and contingency planning. We determined that Oregon State University's Banner Student Information System generally maintained the completeness, accuracy and validity of the data; however, we found several minor data input and processing weaknesses warranting management's attention. We also found that processes relating to security, disaster recovery and business continuation planning, and system maintenance could be improved.
- Oregon Department of Transportation: TEAMS Applications Control Review(#2004-20), May 17, 2004 – The objective of this audit was to evaluate specific controls over TEAMS. We found that controls governing TEAMS during the scope of our audit provided reasonable assurance that expenditure transactions were completely recorded, properly authorized, accurately processed and properly classified by fiscal period. However, logical access to production programs and data was not monitored to ensure that access was granted only to individuals with a demonstrated need for such access. In addition, controls governing emergency changes to TEAMS did not ensure that managers were aware when emergency modifications occurred or temporary fixes timely replaced with approved code.
- Department of Administrative Services: Statewide Financial Management Application – Data Integrity Audit (#2004-23), July 19, 2004 – The objective of our audit was to determine whether data remained complete, accurate, and valid from the source of entry into the Statewide Financial Management Application (SFMA) and the state's DataMart. We were unable to draw a conclusion on the integrity of data entered into SFMA due to incomplete agency supporting documentation in 70 percent of the transactions tested. In addition, we also found a significant number of errors in 13 percent of the transactions that were supported. Finally, we found that once data was processed in SFMA and downloaded into the DataMart, the data remained complete and accurate between the two systems.
- Department of Administrative Services – Data Center General Controls Review Follow Up (#2004-33), November 12, 2004 - The purpose of this audit was to determine whether the department implemented recommendations made in Audits Division report No. 2001-50, Department of Administrative Services, Data Center General Controls issued in November 2001. We found that the department has made some progress in implementing the recommendations made during the prior audit. Of 25 recommendations, seven were resolved, three were partially resolved, and 15 were not resolved.

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2003-05 Information Technology Audits (cont.)

- *Oregon Department of Transportation: Data Center General Controls Review Follow Up (#2005-03), January 14, 2005* - The purpose of this audit was to determine whether the department resolved findings identified in Audits Division report No. 2001-51, Oregon Department of Transportation, Data Center General Controls Review issued in November 2001. We found that the department has made some progress in resolving the findings identified during the prior audit. Of 26 findings, five were resolved, nine were partially resolved, and 12 were not resolved
- *Department of Corrections: AFAMIS Application Controls Review (#2005-03), January 14, 2005* - The purpose of this audit was to evaluate the effectiveness of computer controls governing the Automated Financial Accounting Manufacturing Inventory System (AFAMIS). Department management did not use generally accepted controls for system development and maintenance. In addition, many critical system development phases and processes were not adequately performed during the department's project to upgrade to the OneWorld XE version of the system. As a result, the system was in a general state of disrepair and the department's project to upgrade AFAMIS was in jeopardy of failure. In addition, during our review we identified approximately \$177,000 in contract payments that were made contrary to state contracting rules. Controls to secure AFAMIS programs, data, and online functions were also insufficient and ineffective. Access to AFAMIS data and programs was not properly restricted and the department's ability to provide reliable internal control was limited. Key data files used by the department's AFAMIS implementation, and which will be utilized by its OneWorld XE version, were not always complete, accurate or valid. The department also had not developed disaster recovery and contingency plans to restore AFAMIS or its critical business functions in the event of a disaster or major disruption.
- *Department of Human Services: Client Maintenance System Application Controls Review (#2005-15), April 28, 2005* - The purpose of our audit was to evaluate the effectiveness of key general and application computer controls for the department's Client Maintenance computer application. We found that the system provided reasonable assurance that data input remained complete and accurate through data processing and output. However, the validity and completeness of data input was not always assured. As a result, during calendar year 2004 the department issued overpayments through the system to clients totaling approximately \$320,000. The department's security framework did not adequately protect the system from unauthorized use, disclosure or modification, damage or loss. The department's program change management controls ensured that system modifications were tested and documented. However, those controls did not ensure program modifications were formally authorized or reviewed. In addition, access to program code was not sufficiently restricted to ensure it could not be altered after it was formally tested. If these weaknesses were exploited, the integrity and validity of the system could be compromised. Finally, the department backed up system programs and files but had not developed disaster recovery and business continuity plans to restore the application in the event of a major disruption.



Investigations

According to the Association of Certified Fraud Examiners, on-the-job fraud and abuse costs employers an average of \$9 per day per employee.

Uncovering Improper Activities

An improper governmental activity is any activity by a state agency or a state employee occurring in the employee’s official capacity that violates a state or federal law or regulation; is economically wasteful; or involves gross misconduct, incompetence, or inefficiency. Our office receives and investigates allegations related to improper governmental activities by state employees or agencies.

In early 1995, an outreach effort was launched to encourage citizens and government employees to report waste and misspending of tax dollars. The “hotline” was established for people to call and report information directly to the Audits Division. The 24-hour number is 800-336-8218. Citizens can either leave information anonymously or provide their names, addresses and phone numbers so they can be contacted for additional information or follow-up. Computer users may contact the Audits Division through the Internet address of <http://fraud.oregon.gov>.

Some of our best tips have come from government workers. They know where many of the problems are, and want to correct them. The hotline gives workers a simple and effective method of reporting their concerns. Citizens and government workers can have a real impact on government efficiency with the information they send to the Audits Division.

Some investigations are spurred from calls received on our Government Waste Hotline. Other investigations are initiated when our auditors, while on another assignment, become aware of inappropriate or suspicious activity during the course of other audit work. We also conduct investigations after being notified of potential problems by agency managers and other government officials.

Our first priority is to work with state agencies to establish sound processes and practices to prevent improper activities from occurring in the first place. However, when a loss has occurred, our role is to ensure that the full extent of the loss is identified and to determine the breakdown in controls that allowed the loss to happen in order to prevent future occurrences. Although we investigate improper governmental activities, we do not have enforcement powers. After we substantiate an allegation, we report the details to the state agency and other appropriate authorities. During fiscal years 2003-2005, we issued the results of seven investigations.



2003-05 Investigations

- *Oregon Tourism Commission and Oregon Economic and Community Development Department: Loss of Funds* (#2003-23), July 2, 2003 - In October 2002, department officials reported to us a loss of the commission's funds allegedly caused by a department employee. Subsequently, the Oregon State Police conducted an investigation and identified an approximate \$228,000 loss. We identified an additional \$5,000 that appeared to have been misappropriated by the employee, bringing the total loss to approximately \$233,000. We also identified areas where the department could improve its controls to prevent future losses and to better safeguard financial assets.
- *Oregon Commission on Children and Families: Use of State Resources* (#423-2004-03-01), March 24, 2004 - We received an allegation that a manager of the commission used a state owned vehicle to commute from her personal residence to commission headquarters and may have been reimbursed for inappropriate expenses. We identified three instances in which the manager inappropriately used a state vehicle. We also identified some expense reimbursements that did not appear to have an appropriate business purpose or lacked appropriate approvals. In addition, we found documentation was not available for two vacation payouts made to this manager.
- *Information Report on the Secretary of State's Government Waste Hotline 1995-2003* (#2004-16), April 15, 2004 - This report summarizes activity through the Secretary of State's Government Waste Hotline since its inception in 1995. Sections 177.170 and 177.180 of the Oregon Revised Statutes established this toll-free hotline for reporting waste, inefficiency or abuse by state agencies, state employees or persons under contract with state agencies. As required, this report describes the number, nature and resolution of reports made.
- *Department of Administrative Services: Use of State Owned Equipment* (#107-2004-09-01), September 2, 2004 - We received an allegation that an employee at the Department of Administrative Services was utilizing state owned computer equipment to run a private business. We found that, although the individual had a private business, evidence did not support the use of the state owned equipment to run that business. However, we did identify instances of possible inappropriate use of state owned computer equipment. These included using non-state data on state owned equipment and allowing non-state employees to use state equipment for training purposes.
- *Department of Aviation: Use of State Funds* (#109-2004-10-01), October 12, 2004 - We received an allegation that the Department of Aviation wasted approximately \$25,000 in state money by co-sponsoring a party to celebrate the anniversary marking 100 years of flight. Based on advice provided by the Department of Justice, the sponsorships of such events appear to be within the department's legal authority as these events could be seen as ways to promote aviation in the state. However, we found that it was not always clear how events sponsored by the department promoted aviation.

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2003-05 Investigations (cont.)

- *Oregon State Police: Review of Allegations* (#257-2004-11-01), November 5, 2004 - We received allegations regarding questionable overtime and reimbursement of expenses, false reporting of personal leave, personal use of a state vehicle, and failure to fulfill assigned work tasks by an Oregon State Police employee. We found that expense reimbursements and personal leave reporting appeared to be appropriate. However, we substantiated allegations regarding the use of a state vehicle for personal purposes and some overtime awarded was unnecessary or should not have been awarded. Finally, we were unable to substantiate the allegation of failure to fulfill assigned work tasks based on available documentation and interviews conducted.
- *Oregon Department of Education: Use of State School Fund to Provide Transition Services to Youth Outside Correctional and Detention Facilities* (#581-2004-11-01), November 22, 2004 – The department requested that we review its use of the State School Fund to provide transition services to youth outside of correctional and detention facilities. We estimate that the department inappropriately spent between \$684,000 and \$1,568,000 in State School Funds on transition services between June 2001 and June 2004.
- *Oregon Housing and Community Services Department: The Dalles Civic Auditorium* (#914-2005-01-01), January 14, 2005 – The department received an allegation that it had been billed for unallowable grant expenses by The Dalles Civic Auditorium. At that time, the department requested that the division determine whether expense reimbursements were allowable under grant provisions. We found that The Dalles Civic Auditorium billed the department approximately \$30,000 in unallowable expenses. We also found that grant payment terms were not based on specific deliverables as suggested by contracting best practices.
- *Report on the Secretary of State's Government Waste Hotline January – December 2004* (#2005-12), April 18, 2005 - The purpose of the audit was to summarize activity reported through the Secretary of State's Government Waste hotline. The division received 277 calls in 2004. Seventy percent of the calls originated from concerned citizens. The nature of calls received varied from information requests to information sufficient to warrant an investigation. The resolution of calls included providing information, referrals, and audits or investigations. The number of calls resulting in an investigation remained consistent with the prior year. This report also summarizes the results of six investigations conducted into improper activities by state employees and agencies. As a result of the investigations completed, we identified questioned costs of approximately \$840,000 in 2004. Total costs of over \$4.9 million have been identified since the inception of the hotline in 1995. These dollars represent questionable expenditures, monies not spent in accordance with applicable laws, or potential savings that could result from improved efficiencies or the elimination of waste or abuse.



Conclusion

The Audits Division provides a valuable service to government and the public by ensuring that tax dollars are properly accounted for and are spent as intended. In the last biennium, 110 audits, investigations, and reviews identified more than \$43 million dollars that could be spent more efficiently or economically and made numerous recommendations to improve the operation of Oregon state government. With the continued cooperation of government officials and the public, the Audits Division will continue to provide value to the people of Oregon by fulfilling its mission of protecting the public interest and improving Oregon government.