
Secretary of State

State of Oregon

**REPORT TO THE
LEGISLATIVE AUDIT COMMITTEE**

January 26, 2006



Audits Division



Auditing for a Better Oregon

Senator Schrader and
Representative Krummel, Co-Chairs,
and Members of the Legislative Audit Committee

Dear Committee Members:

The Oregon Audits Division is pleased to present this report to the Legislative Audit Committee. It provides summaries of the reports and management letters we have issued since the December 1, 2004 committee meeting. This report also includes a brief description of audits we are currently performing and those we currently plan to conduct during 2006.

During 2005, our audits addressed a number of very important issues and provided valuable recommendations to improve Oregon state government. We welcome the opportunity to discuss these issues and recommendations should you have additional questions or concerns.

From this report, you will also see that we currently have a full slate of audits in various stages of completion and an exhaustive list of planned audit topics and issues we have identified worthy of our attention. We also recognize the need to respond to acute audit needs that often arise during the course of the year. In that regard, we will adjust our priorities and resources to ensure that the most important issues are timely addressed.

We look forward to working with the committee and welcome your suggestions for potential audits, and your comments regarding how, together, we may ensure continuous improvement in state government.

OREGON AUDITS DIVISION

Chuck Hibner
Director
January 26, 2006

T A B L E O F C O N T E N T S

	<u>Page</u>
PLANNED AUDITS	1
AUDITS IN PROCESS.....	4
REPORTS AND MANAGEMENT LETTERS ISSUED (Since December 1, 2004)....	9

PLANNED AUDITS

The following are some of the more significant audits we plan to start in 2006.

INFORMATION TECHNOLOGY:

Statewide Financial Management Application (SFMA) – General and Application Controls Review

The purpose of this audit will be to provide support for our annual financial audits, where an understanding and review of critical information system controls is required. This audit will evaluate controls designed to ensure the integrity, accuracy and validity of financial data produced by the state's centralized financial accounting system, SFMA.

Public Employees Retirement System: General and Application Controls Review

The purpose of this audit will be to provide support for our annual financial audit, where an understanding and review of critical information system controls is required. This audit will test controls designed to ensure the integrity, accuracy and validity of financial data produced by the agency's computer systems, jClarity and RIMS.

Department of Administrative Services, CNIC Data Center General Controls Review

The purpose of this audit will be to provide support for our annual financial audits, where an understanding and review of critical information system controls is required. This audit will identify and evaluate controls governing the CNIC data center environment.

Oregon Department of Transportation, Department of Motor Vehicles (DMV): General and Application Controls Review

This audit will test controls designed to ensure the availability, integrity and confidentiality of data processed through DMV computer systems.

Department of Human Services (DHS) – Check Reconciliation System

The purpose of this audit will be to provide support for our annual financial audit, where an understanding and review of critical information system controls is required. This audit will evaluate controls designed to ensure the integrity, accuracy and validity of data processed through the agency's check reconciliation systems.

FISCAL ACCOUNTABILITY:

Smart Buy Contract Review –

The purpose of this audit is to determine if the Smart Buy program is working as intended. It has been several years since the Department of Administrative Services enlisted a contractor and developed a program to buy selected items “smarter”. This audit would seek to ensure that the contract terms were being met and that the savings reported are accurate.

Oregon Health Sciences University: Opportunity Grant Program Expenditure Review

The Oregon Health Sciences University has spent and is spending bond funds received from the state to support the Oregon Opportunity Grant program. This topic came to us through the Legislative Fiscal Office and would be an audit to determine if bond funds were spent in accordance with statute. It may also report on the value the state is achieving through the Oregon Opportunity Grant programs.

Oregon University System: PSU Engineering Building Construction

This is another in a series of construction audits we have undertaken of a number of the largest construction projects in the state. The purpose of these audits is to help ensure that as a state we are managing these high risk and costly projects appropriately. The purpose of this particular audit would be to determine if costs charged to the Portland State University Engineering building project were reasonable and if costs, change orders, and contract amendments were in accordance with contract terms.

Contracted Interpretive Services Review

This audit topic is the result of audit work we have conducted of several Department of Human Services programs. While reviewing payments to vendors that provide interpretive services, we noted that, statewide, we purchase a significant amount of this type of service. We also noted that for those agencies utilizing interpretive service vendors, the price the state pays varies and in some cases it appears that volume pricing may be available and not taken. The purpose of this audit would be to determine if the state could be contracting for these services in a more cost effective way.

Statewide: Office Space Utilization

The purpose of this audit would be to look at the state’s current process for tracking space owned or leased by selected agencies and to determine if this process is maximizing space utilization and /or minimizing the cost of unused or underused space. Recently, an agency was found to have had a significant amount of leased space that went underutilized for a significant amount of time.

Local Government Revenue Sharing Oversight

This is another audit project that came to us through the Legislative Fiscal Office. There is interest in knowing (or confirming) what the state is achieving with the cigarette tax revenue, highway fund revenue, and video lottery revenue transferred to local governments. Work in this topic area would focus on determining if revenue sharing funds are used for purposes specified in revenue sharing agreements and on reporting on the value the state is achieving through these selected funding streams.

Department of Education: Public Education Medical Cost Reimbursement Review

The purpose of the audit would be to determine if ODE is ensuring Oregon public schools are claiming federal reimbursement for all eligible medical costs. If not, determine the cost of not claiming reimbursement. This has been noted as an area of interest in other states. For example, one state was found to be losing out on \$50 - \$70 million a year in federal reimbursement for medical costs incurred by public schools.

Department of Transportation: OTIA III Contacting

This audit would be the second in a series of reviews we have planned for the OTIA III construction program, one of the largest construction programs ever undertaken in the state. Other audit work we have been conducting at the department highlighted the need to look at this aspect of the program at this time. The focus in this phase would be review the department's processes for awarding and developing appropriate contracts, making payments according to contract terms, and ensuring contract deliverables are provided in accordance with contract terms.

Oregon University System: Cost of Credits

The purpose of the audit would be to determine whether OUS students earn a significant number of credit hours in excess of graduation requirements and if so, determine the cost to the state. Further, the audit may also review whether or not OUS residency requirements are clear and consistently applied. An official from one state told us that their state was graduating college students that had accumulated a significant number of excess credit hours. Given that these excess credits are earned at the in-state tuition rate, there is a significant cost to the state.

AUDITS IN PROCESS

Following are audits we have started but not yet completed. They are arranged by anticipated release date.

Oregon Judicial Department: Indigent Defense Eligibility and Contributions

Both the federal and Oregon constitutions require that the state represent indigent defendants in criminal and other proceedings. The Oregon Judicial Department performs three functions in support of the state's indigent defense program: verification of eligibility, collection of application and contribution fees, and recoupment of court costs at the conclusion of a case. Fees and recoupment amounts can be waived if a judge finds that a defendant is unable to pay them. The objectives of this audit are to determine (1) whether applicants who received court-appointed counsel met eligibility requirements and whether department staff recommend application and contribution fees consistent with department guidelines; (2) the extent to which judges' decisions regarding appointing counsel and assessing fees differ from court staff recommendations and, in general, the reasons why; and (3) judges' recoupment practices for those who receive court-appointed counsel. This report is scheduled for release in January 2006.

Oregon Department of Transportation: Engineering Services

The purpose of this audit is to determine if the department's methods for obtaining engineering services for highway projects results in the lowest possible cost to the state. The goal of this audit is to provide decision makers with objective information and recommendations that will strengthen and improve the department's efforts to meet its engineering needs at the least possible cost. Our methodology includes a comparison of consultant costs to an estimated cost of providing the services in-house. This report is scheduled for release in February 2006.

Department of Corrections: Madras Correctional Facility – Pre-construction Contract

This audit focuses on the estimated \$12 million of pre-construction and early work for the Madras Correctional Facility. The purpose of this audit is to determine if costs charged to the project were reasonable; and if costs, change orders, and contract amendments were in accordance with contract terms. This report is scheduled for release in February 2006.

Facilities Management

This audit is beginning with a follow up on recommendations given in an audit report issued during October 1992. That report found opportunities to better protect state facilities from deterioration by developing statewide facility maintenance strategies and by establishing funding sources continuously dedicated to facility repair and renewal. In addition, this audit

will attempt to determine if the state's maintenance planning and funding process, within the context of current resources, is effectively minimizing deterioration to facilities. This report is scheduled for release in February 2006.

Department of Safety, Standards, and Training: Oregon Public Safety Academy Construction Contract

This audit focuses on the Oregon Public Safety Academy Construction project, estimated to cost \$60.3 million. It is about 50% complete and is scheduled for completion about July 2006. The primary purpose of this audit is to determine if costs charged to the project thus far were reasonable; and if costs, change orders, and contract amendments were in accordance with contract terms. This report is scheduled for release in February 2006.

Oregon University System: Reser Stadium Construction Contract

This audit focuses on the Oregon State University Reser Stadium Remodel Construction project, with an estimated cost of \$110 million. The purpose of this audit is to determine if costs charged to the project were reasonable; and if costs, change orders, and contract amendments were in accordance with contract terms. This report is scheduled for release in February 2006.

Statewide Single Audit Report: Fiscal Year 2005

This annual 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 *Comprehensive Annual Financial Report*, examines the state's Schedule of Expenditure of Federal Assistance, and evaluates internal controls over financial reporting and compliance with state and federal program requirements. We are in the process of preparing and issuing management letters related to this Statewide Financial and Federal Compliance audit for several state agencies. Any reportable findings included in these letters will be included in this Statewide Single Audit Report. This report is scheduled for release in March 2006.

Department of Transportation: OTIA III

The objective of this performance audit is to determine whether ODOT's OTIA III State Bridge Delivery Program planning process resulted in cost-effective repair or replacement decisions. Our methodology will be to determine whether the process and criteria ODOT used to make repair and replacement decisions were reasonable and consistently applied. If we find that bridge repair or replacement decisions are not cost effective, we plan to determine the reasons for and effect of those decisions. This report is scheduled for release in March 2006.

Statewide Wireless Networking Controls Review

This audit will determine the extent of wireless computer networking among state agencies and evaluate that use according to best industry practices. This report is scheduled for release in March 2006.

Department of Corrections: Review of Inmate Health Care

For the 2003-05 biennium, the budget for the Department of Correction's Healthcare Division alone was \$60 million, with an additional \$30 million going toward mental health and pharmacy. The objective of this audit is to determine whether the department can reduce healthcare costs by locating medically-needy inmates in areas where medical and transportation costs are lower. This report is scheduled for release in March 2006.

Parks and Recreation Department: Cash Controls Audit

The purpose of this audit is to determine if the department has adequate controls in place over cash and is in compliance with applicable state policies. This report is scheduled for release in March 2006.

Secretary of State's Government Waste Hotline Report: January - December 2005

The purpose of this report is to summarize activity reported through the Secretary of State's Government Waste hotline (hotline). 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. The Secretary of State through its Audits Division (division) conducts an initial investigation of each report of waste, inefficiency or abuse made by public employees and members of the public through the hotline. As required by statute, this report describes the number, nature and resolution of hotline calls received during the period January 1, 2005 through December 31, 2005. This report also summarizes the results of investigations conducted into improper activities by state employees and agencies. This report is scheduled for release in April 2006.

Department of Administrative Services: Computing and Networking Infrastructure Consolidation (CNIC)

This is the first in a series of planned audits of the Computing and Networking Infrastructure Consolidation (CNIC) project. Its purpose is to evaluate the initial planning and implementation phases of the CNIC project and determine whether project objectives are being achieved. The first report is scheduled for release in April 2006.

Oregon State Police: Tribal Gaming

This is being conducted at the request of the Oregon State Police, the tribal gaming community, and the Governor's office. The primary purpose of this audit is to ensure that the billing statements provided to the tribal gaming are accurate and complete and consistent with the signed compact. This audit is scheduled for release in April 2006.

Department of Education: Alternative Education ADM Review

The purpose of this audit is to determine if the students claimed in selected alternative education programs were eligible to be included in Average Daily Membership (ADM) numbers used for state funding for the 2003 – 2004 school year. We will also provide some information on the types of programs and students served by alternative education programs. This audit was requested by the department and is scheduled for release in May 2006.

Community Colleges and University System: Printing and Mailing

The purpose of this audit is to identify opportunities to reduce printing and mailing costs at community colleges and universities. Specifically, we are looking at the printing and mailing of catalogs, schedules, and billing statements. This report is scheduled for release in Spring 2006.

Department of Human Services: Medicaid Payments for Providers

The focus of this audit is payments for services provided to clients eligible for Medicaid. This area is high risk due to the large dollar amount involved, the decentralized eligibility determination process, and the limited program oversight. This report is scheduled for release in Spring 2006.

Department of Human Services: State Funded Adoption Assistance Program

Adoption assistance is provided to help remove financial barriers to adopting special needs children. Assistance can include one-time payments for adoption or extraordinary expenses and ongoing monthly cash subsidies. General funds for the program were budgeted at approximately \$42.6 million for the 2003-05 biennium. The purpose of this audit is to provide information on the assistance provided to adoptive families, examine trends and reasons for the growth in assistance payment costs, and identify possible cost containment measures through comparison of Oregon's program to those of other states. This report is scheduled for release in Spring 2006.

Measure 66 - Review of Expenditures and Performance Measurements

The purpose of this audit is to fulfill the constitutional requirement that an independent audit be performed of agencies receiving and expending Measure 66 funds for the 2003-2005 biennium. Measure 66 dedicated a portion of lottery fund proceeds for parks, beaches, and habitat and watershed restoration. The specific objectives of our audit are to determine whether agencies receiving Measure 66 funds spent them as the constitution intended and reported expenditures accurately; and, agencies have established performance measures and are gathering the necessary Measure 66 data relevant to those performance measures. This report is scheduled for release in Summer 2006.

Change of Director Reviews

We are scheduled to conduct these reviews pursuant to *Oregon Revised Statutes 297.210(2)*, which requires the Secretary of State to perform a review when a director leaves his or her position. These reviews examine transactions and accounts under the former director's control. These reviews are also to determine whether the subject agency has safeguards in place to protect state assets at the time of director's separation. As of this date, these are the Change of Director reviews planned.

Department of Land Conservation and Development

Oregon Economic and Community Development Department

Oregon State Fair

Oregon Board of Investigators

Oregon Department of Transportation

Oregon Employment Department

Department of Human Services

Oregon Student Assistance Commission

Department of Administrative Services

Oregon Department of Fish and Wildlife

REPORTS ISSUED SINCE DECEMBER 1, 2004

Following are brief summaries of the audit reports we have issued since the December 1, 2004, meeting of the Joint Legislative Audit Committee. The summaries are presented by audit type and by release date.

In-House Financial Audits

- State of Oregon Comprehensive Annual Report For the Year Ended June 30, 2004 - December 28, 2004
- Oregon State Lottery Commission For the Year Ended June 30, 2004 (#2005-01 and #177-2004-08-01), January 3, 2005
- Public Employees Retirement System For the Year Ended June 30, 2004 (#2004-36) (#459-2005-01-01), January 19, 2005
- Statewide Single Audit Report For the Year Ended June 30, 2004 (#2005-07), February 28, 2005
- Office of Energy, Small Scale Energy Loan Program For the Year Ended June 30, 2004 (#2005-09), March 22, 2005
- Columbia River Gorge Commission For the Year Ended June 30, 2004 (#2005-13), April 21, 2005
- Oregon Economic and Community Development Department Special Public Works Fund and Water Fund For the Year Ended June 30, 2004 (#2005-14 and #123-2005-04-01), April 29, 2005
- Oregon Short-Term Fund: An Investment Pool of the State of Oregon For the Year Ended June 30, 2005 (#2005-22) August 31, 2005
- Comprehensive Annual Financial Report Enterprise Funds of the State of Oregon Housing and Community Services Department For the Year Ended June 30, 2005 (#2005-27) November 18, 2005
- Public Employees Retirement System For the Year ended June 30, 2005 (#2005-29) (#459-2006-01-02), December 16, 2005
- State of Oregon Comprehensive Annual Report For the Year Ended June 30, 2005 - December 20, 2005

Contracted Financial Audits

- Oregon University System For the Year Ended June 30, 2004 (#2005-02), January 5, 2005
- Appraiser Certification and Licensure Board For the Year Ended June 30, 2004 (#2005-05 and #161-2004-10-01), January 19, 2005
- State Landscape Contractors Board For the Year Ended June 30, 2004 (#2005-06 and #808-2004-10-01), January 19, 2005
- Oregon Student Assistance Commission: Federal Family Education Loan Program (#2005-11), April 5, 2005

- SAIF Corporation Financial Statements as of and for the Year Ended December 31, 2004 On the Basis of Generally Accepted Accounting Principals (GAAP) (#2005-24) September 14, 2005
- SAIF Corporation Financial Statements as of and for the Year Ended December 31, 2004 in Accordance With Statutory Accounting Principles (#2005-25) September 14, 2005
- Oregon Beef council For the Year Ended June 30, 2005 (#2005-26) October 26, 2005
- Oregon Department of Veterans' Affairs Annual Financial Report Enterprise Funds For the Fiscal Years Ended June 30, 2005 and June 30, 2004 (#2005-28) December 1, 2005
- Oregon University System 2005 Financial Report (#2005 –30) December 11, 2005

Change of Director Reviews

- 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

Statewide Single Audit Management Letters (agency alpha order)

- Administrative Services, Department of: Statewide Single Audit Including Selected Financial Accounts and Federal Awards Year Ended June 30, 2004 (#107-2005-02-01) February 8, 2005
- Corrections, Department of: Statewide Single Audit Including Selected Financial Accounts for the Year Ended June 30, 2004 (#291-2005-01-01) January 31, 2005
- Corrections, Department of: Statewide Single Audit Including Selected Federal Awards Year Ended June 30, 2004 (#291-2005-02-01) February 4, 2005
- Education, Oregon Department of: Statewide Single Audit Including Selected Financial Accounts and Federal Awards Year Ended June 30, 2004 (#581-

2005-02-01) February 4, 2005

- Employment Department, Oregon: Statewide Single Audit Including Selected Financial Accounts and Federal Awards Year Ended June 30, 2004 (#471-2005-01-01) January 14, 2005
- Environmental Quality, Department of: Statewide Single Audit Including Selected Financial Accounts for the Year Ended June 30, 2004 (#340-2005-01-01) January 24, 2005
- Fish and Wildlife, Oregon Department of: Statewide Single Audit Including Selected Financial Accounts for the Year Ended June 30, 2004 (#635-2005-01-01) January 4, 2005
- Forestry, Oregon Department of: Statewide Single Audit Including Selected Financial Accounts for the Year Ended June 30, 2004 (#629-2005-01-01) January 18, 2005
- Human Services, Department of: Statewide Single Audit Including Selected Financial Accounts and Federal Awards Year Ended June 30, 2004 (#100-2005-02-01) February 10, 2005
- Military Department, Oregon: Statewide Single Audit Including Selected Financial Accounts for the Year Ended June 30, 2004 (#248-2005-02-01) February 2, 2005
- Parks and Recreation Department, Oregon: Statewide Single Audit Including Selected Financial Accounts for the Year Ended June 30, 2004 (#634-2005-01-01) January 25, 2005
- Police, Oregon State Department of: Statewide Single Audit Including Selected Financial Accounts for the Year Ended June 30, 2004 (#257-2005-01-01) January 6, 2005
- Revenue, Department of: Statewide Single Audit Including Selected Financial Accounts for the Year Ended June 30, 2004 (#150-2005-01-01) January 4, 2005
- Transportation, Oregon Department of: Statewide Single Audit Including Selected Financial Accounts for the Year Ended June 30, 2004 (#730-2005-01-01) January 21, 2005
- Youth Authority, Oregon: Statewide Single Audit Including Selected Financial Accounts for the Year Ended June 30, 2004 (#415-2005-02-01) February 4, 2005

Resource Management Audits

- *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.
- *Insurance Pool Governing Board: Cash Controls for the Period of July 1, 2004 through March 31, 2005* (#442-2005-07-01) July 13, 2005 - The objective of the audit was to review internal controls over cash receipts and cash disbursements and conclude on whether the controls were adequately designed and functioning as intended. Based on our review, except for the issue noted below, the Insurance Pool Governing Board has established sufficient internal controls over the receipt and disbursement of cash. We noted the agency was out of compliance with Oregon Revised Statute 293.265, which requires funds be deposited within one business day of receipt, for 60 percent of the sample items tested for miscellaneous deposits.
- *Nursing, Oregon State Board of: Review of Internal Controls Over the Receipting, Handling and Disbursing of Cash for the Period July 1, 2003 through December 31, 2004 and Review of SPOTS Purchases at the Board for the Period of January 1, 2003 through December 31, 2004* (#851-2005-08-01) August 25, 2005 - The objective of our review was to determine whether sufficient cash controls have been established and are working properly. We concluded the board has established sufficient controls over the receipting, handling and disbursing of cash. We also completed a review of SPOTS purchases at the board for the period of January 1, 2003 through December 31, 2004 and found issues related to SPOTS purchases. We question \$2,836 the board spent on meals, cakes and refreshments. Specifically, we found that the board spent \$2,382 over per diem rates for meals. While Oregon Accounting Manual (OAM) rules allow the board to spend amounts in excess of per diem rates for meals provided during board meetings, we used these rates as benchmarks. In addition, we found that the board spent \$1,449 on gifts for retiring employees (OAM policy 10.40.10.PO.115 specifically states that

retirement invitations, cards, gifts, and party favors may not be purchased with state funds).

- Department of Human Services: Review of Small Purchase Order Transaction System (SPOTS) Transactions (#100-2005-09-01) September 20, 2005 -The purpose of our review was to determine whether the department is using SPOTS cards to make purchases that further the business of the state and whether those purchases comply with Department of Administrative Services (DAS) policies and guidelines controlling state credit card use. During our review, we reviewed 571 transactions occurring during calendar year 2004. Results of our review found weaknesses directly related to the use of the SPOTS card, as well as other matters needing management's attention. We noted instances where: SPOTS cardholders did not fully comply with program requirements and restrictions intended to safeguard purchasing; support documentation was lacking or could be improved; and program weaknesses relating to meals and refreshments and other purchases that we see as questionable.
- Judicial Department, Oregon: Review of Services and Supplies Expenditures For the Period July 1, 2003 through January 31, 2004 (#198-2005-09-01) September 21, 2005 - Our objective was to review internal controls over services and supplies expenditures and conclude on whether they were effectively designed and functioning properly. In performing this review, we interviewed agency staff and examined supporting documentation for select accounts. Except as noted below, we found that controls were effectively designed and functioning properly. During our review we noted two instances where information input by the courts did not agree to original documentation completed by jurors and these jurors appear to have been underpaid for mileage a total of \$43.60. We also noted one instance in which a juror did not receive the per diem payment for one day of jury service. Further, our testing noted and instance of improper segregation of duties where warrants were returned to the preparers prior to mailing.

Financial Compliance Audits

- 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.

Fiscal Accountability Audits

- *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.

- *State Agency Use of Metered Equipment (#2005-18), July 11, 2005* - The purpose of our audit was to determine if state agencies were meeting their metered equipment needs in the most cost-effective manner. Examples of metered equipment reviewed include tractors, loaders, rollers and graders. We found that, when viewed as an enterprise, the state has opportunities to improve cost effectiveness through interagency sharing of lightly used equipment. We noted for the six agencies we reviewed that many of the agencies had not developed a minimum-use standard that would point towards equipment that may be more suitably rented than owned. Nor had they developed a process to identify those lightly used pieces of equipment where low use would be acceptable due to other factors, such as safety or availability, thereby excepting them from rental or sharing consideration. Our analysis identified 268 pieces of metered equipment that should be reviewed to determine whether need for the equipment could be more cost-effectively met through sharing or rentals, or should be excluded from consideration due to other considerations. These pieces of equipment, as well as metered equipment fleets in general, should be closely monitored and evaluated because of the high costs to retain, maintain, and eventually replace equipment, approximately \$18.3 million for the 268 pieces of low-use equipment identified.
- *Oregon Youth Authority: Availability of Juvenile Offender Data (#2005-21) August 12, 2005* - The purpose of this audit was to determine whether data relating to juvenile offenders at the Oregon Youth Authority and the 36 Oregon counties are readily available for decision makers for evaluating the effectiveness of Oregon's juvenile justice system. We found that most data relating to juvenile offenders at the Oregon Youth Authority and the 36 Oregon counties are readily available to assist decision makers in making program and resource choices regarding Oregon's juvenile justice system. Additionally, we found that the Youth Authority, in conjunction with the JJIS Steering Committee produces annual reports on detention, referrals, dispositions, and recidivism, and also has made available to JJIS users more than 250 reports with information ranging from case management, to detention and closed custody data. However, our audit also found that information on data variations and trends available in JJIS reports is limited or does not exist. Further, restitution, community service, and treatment data are not consistently captured in JJIS, and education data, maintained by the Oregon Department of Education, are not available from the Youth Authority.

Informational Reports

- 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.
- State Auditor’s Report 2003-2005 Biennium (2005-19), July 18, 2005 - 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.
- Department of Education: K – 12 Cost Survey and Spending Audits Follow Up (# 2005-23) August 31, 2005 – The purpose of this audit was to determine whether the Department of Education implemented recommendations the Audits Division made in two related audit reports-Oregon Department of Education: Kindergarten Through 12th Grade Cost Survey (Report No. 2002-45, issued in December 2002) and Oregon Department of Education: Analysis of Spending for K-12 Support Services (Report No. 2004-19, issued in May 2004). In 2002, the Audits Division issued an informational report titled Oregon Department of Education: Kindergarten Through 12th Grade Cost Survey (Report No. 2002-45). Using national and state data, the report showed differences in spending patterns among Oregon school districts. The report recommended the department examine the reasons for cost differences in partnership with school districts. In 2004, the Audits Division issued a report titled Oregon Department of Education: Analysis of Spending for K-12 Support Services (Report No. 2004-19). This report identified strategies individual school districts employed to control support services spending. The report also noted that school finance data was difficult to use and understand. We recommended the department work with education stakeholders to identify their information needs, develop or contract for management information and public reports that are produced to support cost effective decision making, and

strengthen procedures to ensure expenditure data provided by districts are reliable and correctly reported to the U.S. Department of Education. We found that the department took actions to address the four recommendations we made in the two prior audit reports; but, because the department had not fully implemented these recommendations, we considered them to be partially resolved.

Management Risk Assessments

- 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.
- Transportation, Oregon Department of: OTIA III State Bridge Delivery Program (#730-2005-08-01) August 24, 2005 - We are currently engaged in an audit at the department, the objective of which is to determine whether the OTIA III State Bridge Delivery Program planning process resulted in cost-effective repair or replacement decisions. Our methodology will be to determine whether the process and criteria ODOT used to make repair and replacement decisions were reasonable and consistently applied. During the course of our survey work that preceded the audit, we identified management risks associated with the program that we felt warranted the department's attention: the department may lack sufficient staff to audit OTIA III contract costs and compliance; inaccuracies in the department's OTIA III bridge delivery program database may compromise the department's management of the OTIA III program; and the department may be paying mobilization costs that are higher than necessary for some bridge projects.

Information Technology Audits

- 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 (#2005-04), 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.
- *Department of Justice: Child Support Enforcement automated System (CSEAS) Application Controls Review (#2005-20) July 22, 2005* - This audit was performed at the request of the Oregon Attorney General. Its purpose was to evaluate the effectiveness of key general and application computer controls for the Department of Justice (department) Child Support Enforcement Automated System (system) computer application. Our specific audit objectives were to determine whether the department had adequate controls governing data integrity, system security, program change management, and system backup

and recovery. We concluded that, while some controls were sufficient, improvements should be made to ensure integrity of system data and overall accountability of child support assets. We found that although 96 percent of receipts processed correctly, the error rate for complex cases requiring manual intervention averaged over 14 percent; system data did not reconcile to Oregon State Treasury and statewide accounting system balances (approximately \$963,000 of the \$11.9 million on deposit as of April 13, 2005 could not be readily explained regarding its origin or intended disposition); support end dates were not always valid; internal controls did not always ensure dual custody of receipts or segregation of important system functions; the department's security framework did not adequately protect the system; change management controls did not adequately ensure that code could not be altered after it was tested and approved; and the department backed up system programs and files, but had not developed disaster recovery plans to restore the application in the event of a major disruption.

Investigations

- *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.

The Oregon Constitution provides that the Secretary of State shall be, by virtue of his office, Auditor of Public Accounts. The Oregon Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

Directory of Key Officials

Director Charles A. Hibner, CITP, CPA

Deputy Director Mary E. Wenger, CPA

This report, which is a public record, is intended to promote the best possible management of public resources.

If you received a copy of an audit report and no longer need it, you may return it to the Oregon Audits Division. We maintain an inventory of past audit reports. Your cooperation helps us save on printing costs.

Oregon Audits Division
Public Service Building
255 Capitol Street NE • Suite 500
Salem, Oregon 97310

We invite comments on our reports through our Hotline or Internet address.

Ph. 503-986-2255

Hotline: 800-336-8218

Internet:

<http://www.sos.state.or.us/audits/auditthp.htm>

Auditing to Protect the Public Interest and Improve Oregon Government