

Oregon State Police Tribal Gaming Section: Billings Audit



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Secretary of State Audit Report

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Summary

PURPOSE

This audit was performed at the request of Governor Theodore Kulongoski, Attorney General Hardy Myers, and Oregon State Police Superintendent Ronald C. Ruecker. Its purpose was to determine if billings charged to Oregon Indian tribes by the Oregon State Police Tribal Gaming Section (department) during the 2003-2005 biennium were accurate, appropriate, and in accordance with tribal-state agreements or "compacts". Our specific objectives included determining whether:

- Credits issued for vendor investigation and retirement/resignation costs were accurate.
- Staff time was accurately recorded and appropriately billed.
- Travel and training costs were reasonable, accurate and directly related to gaming operations.
- Vendor investigation costs were accurate and appropriately billed to vendors, and payments from vendors properly reduced the monthly billing to tribes.

BACKGROUND

The department performs monitoring and security functions in the nine casinos operated by the tribes under terms and conditions pursuant to tribal-state compacts. The department recovers the costs of performing those duties from the tribes. The department also conducts background investigations of vendors that provide gaming-related services to the Indian casinos. The department receives payments from those vendors for the costs of the investigations.

In July 2005, allegations were made that the department did not charge full costs to a vendor as required by the compacts. Instead, the costs were charged to the tribes. Tribes objected to this action and urged state officials to audit the department's billing practices.

RESULTS IN BRIEF

Prior to our audit, the department identified and corrected errors in the accounting records from which billings were subsequently prepared. The corrections were extended to the tribes in the form of credits or additional charges, depending on the circumstances. Department staff also began

implementing controls and procedural changes that should help reduce accounting errors in future periods.

We concluded that the 2003-2005 billings were accurate, appropriate, and in accordance with the compacts.

Regarding the questioned vendor investigation, the department did not charge all costs to the vendor. However, the department subsequently issued a credit to the tribes, correcting the financial impact. We reviewed the credit and determined that it was accurate.

The department could improve procedures to help ensure employee retirement/resignation costs are accurate before billing those costs to the tribes. Management intended to prorate the costs based on time employees worked in other divisions. Costs incurred from July 2005 through January 2006, however, were not prorated; therefore, the department overcharged the tribes by approximately \$28,000. Management did not correct the oversight until April 2006 when it issued a credit to the tribes. In addition, the department did not retain sufficient documentation to fully support a \$49,700 credit for retirement/resignation costs incurred during the 2003-2005 biennium. Approximately \$4,200 of the credit remained unexplained.

Staff time was accurately recorded and appropriately billed. Travel and training costs were accurate, appropriate, and related to gaming. Vendor investigation costs were accurate, and the payments from vendors were appropriately applied to the billings according to compact requirements.

RECOMMENDATIONS

We recommend department management develop a formal policy for prorating retirement/resignation costs to help ensure the tribes are billed proper amounts. Management should communicate the policy to responsible staff. In addition, staff should retain sufficient documentation of how the costs are calculated and prorated.

AGENCY'S RESPONSE

The Oregon State Police agrees with the findings and recommendations.

Background

The Oregon State Police Tribal Gaming Section (department) performs monitoring and security functions in nine casinos operated by Indian tribes. Tribes have operated casinos in Oregon for over 10 years, the first of which opened in 1994.

Federal law permits tribes to conduct casino-style gaming in states that allow such gaming. The law requires the tribes and the state to negotiate a compact specifying terms and conditions upon which the tribe's gaming operations are to be conducted.

Oregon's compacts authorize the department to independently monitor the tribes' gaming operations in the manner the state considers necessary to ensure compliance with the provisions of the compacts.

In general, the department performs monitoring responsibilities at the casinos, conducts background investigations of casino employees, and conducts initial and recurring background investigations of vendors who provide gaming-related goods and services to the casinos.

Under federal law, states can recover from the tribes those expenses incurred in performing the duties imposed by the compacts. Oregon's compacts authorize the department to bill the tribes a monthly portion of the department's biennial budget. The monthly portion is allocated to the tribes according to formulas established in the compacts. For the 2003-2005 biennium, the Oregon Legislature budgeted approximately \$3.2 million for the department to perform its tribal gaming functions.

The compacts also require vendors undergoing background investigations to pay the department the costs of the

investigation in full prior to commencement of the investigation. The department is to reduce the monthly billings to the tribes by those vendor payments.

In July 2005, allegations surfaced that the department did not charge all costs of a vendor investigation to the vendor. Instead, the tribes had to pay those costs.

Tribes wrote letters to the Governor, the Attorney General, and the Secretary of State objecting to the department's actions and urging state officials to audit the department. In August 2005, the Superintendent of State Police responded, on behalf of Governor Kulongoski and Attorney General Myers, with a formal request to the Secretary of State for an audit.

We interviewed representatives from seven of the nine tribes that operate casinos. Those representatives communicated additional concerns relating to department costs, including staff time, travel, and training. Questions were also raised about vendor investigations in general and about credits the department issued to the tribes in September 2005. As a result of the request for audit from state officials and the tribes' concerns, we conducted a comprehensive audit of the billings issued to the tribes during the 2003-2005 biennium.

Audit Results

Prior to our audit, the department identified and corrected errors in the accounting records from which billings were subsequently prepared. The corrections were extended to the tribes in the form of credits or additional charges, depending on the circumstances. Department staff also began implementing controls and procedural changes that should help reduce accounting errors in future periods.

We concluded that the 2003-2005 billings were accurate, appropriate, and in accordance with the compacts.

Our conclusions relating to specific audit areas are presented below.

Vendor Investigation Credit

We reviewed the tribes' concerns regarding the vendor investigation noted in the *Background* section of this report when we evaluated the September 2005 credits to the tribes. The department did not charge the vendor the full costs of the investigation; thus, the tribes paid those remaining costs. The department, however, subsequently issued a credit to the tribes, correcting the financial impact.

The compacts require vendors doing business with casinos to undergo a background investigation conducted by the department. The department is to assess the cost of the background investigation, and vendors are to pay that assessment in full prior to commencement of the investigation. As the investigation progresses, the department charges staff time, travel, and other related costs against the vendor payment.

Department staff recorded approximately 440 hours to the investigation under question. Of those hours, approximately 160 were not charged to the vendor. Those hours were worked after the vendor requested the department to cease charging costs against its payment. At that time, the investigation was nearing completion and, according to department management, the decision was made to conclude the investigation and issue a report.

Documentation showed that this background investigation was lengthy and particularly problematic in that the vendor did not readily comply with the

department's requests for information throughout the investigation.

In September 2005, department management took the tribe's concerns under consideration and authorized a \$14,310 credit to the tribes for costs relating to the vendor investigation.

We reviewed the documentation supporting the credit and concluded that the credited amounts were accurate.

Agency's Response:

The decision to conclude the investigation, issue a report and bill the remaining 160 hours as training were all made in concert and consultation from the Department of Justice. This information was provided by the department to Audits Division. The Department agrees with the conclusion that the concerns of the Tribes were the impetus for the reconciliation credit.

Retirement/Resignation Credits

While reviewing credits issued to the tribes, we identified areas relating to retirement/resignation costs where the department could improve its related procedures.

When staff retired or resigned from Oregon State Police, accrued leave for vacation, holidays, and compensatory time was paid to an employee, and the costs were charged to the division in which the individual last worked. Some tribes claimed that it was not fair for the tribes to bear the full amount of those separation costs when employees also worked in other divisions of Oregon State Police. Consequently, department management decided to prorate the separation costs and in September 2005 issued a credit of approximately \$49,700 to the tribes for employees who separated during the 2003-2005 biennium.

Management intended to continue prorating separation costs as staff retired and resigned, but did not formulate a written policy to help ensure that the practice would continue or communicate that policy to staff responsible for processing the separation costs. As a result, full retirement/resignation costs were charged to the tribes for four employees who separated from the department from July 2005 through January 2006. Department management did not identify the oversight until April 2006, when it issued a credit of approximately \$28,000 to the tribes.

Our review also disclosed that the department did not retain documentation to fully support the September 2005 credit. Approximately \$4,200 of the credit remained unexplained.

We recommend department management develop a formal policy for prorating separation costs to help ensure the tribes are billed proper amounts. The policy should be communicated to staff responsible for processing the transactions. In addition, department staff should retain sufficient documentation of how the separation costs are calculated and prorated to provide an adequate audit trail.

Agency's Response:

The Department agrees with the recommendation to develop a formal policy/procedure for prorating separation costs as it relates to the TGS. This has been implemented and is now currently in place.

Time Reporting

Accurate time reporting is a significant component of the billing process. The hours worked by department staff assigned to casinos are part of the monthly billing formula. In addition, the department bills vendors for staff

time charged to background investigations.

We reviewed three employees' time sheets supporting the billings to a casino for three months to ensure the hours charged were correct. We concluded that staff time was accurately recorded and hours charged for casino monitoring were used correctly in the allocation formulas.

In addition, we reviewed the hours charged to three vendors from July 1, 2003 through June 30, 2005. Investigation hours were appropriately billed to vendors.

Not all staff time, however, is charged to the tribes and vendors. Sworn staff, which includes detectives assigned to the casinos, are sometimes pulled from their gaming responsibilities for other policing activities, such as patrol. Those hours, called supplemental hours, are initially recorded in the department's payroll records, but are later transferred to the appropriate divisions of Oregon State Police.

According to the compacts, the supplemental hours are to be credited to the tribes in the month the department transfers the supplemental hours. Our review of the department's payroll records showed numerous transfers for supplemental hours. However, those adjustments did not always occur in a timely manner. For example, the department did not transfer \$6,000 of supplemental hours worked from August through December 2004 until February 2005. This resulted in delayed credits to the tribes.

Prior to our audit, the department implemented procedures and controls to help ensure that supplemental hours are identified and transferred from the department's payroll records and credited to the tribes in a timely manner.

Travel Costs

The department incurs costs when staff must travel to training events and vendor locations.

We reviewed 68 percent of the approximately \$146,000 the department expended for tribal gaming related travel during the 2003-2005 biennium. We found that travel costs were accurate and appropriate, and the travel was directly related to gaming operations.

Training Costs

The department spent approximately \$8,700 on registration fees for training during fiscal year 2004 and \$2,300 in fiscal year 2005. Five managers attended a total of 10 training events during the 2003-2005 biennium and eight detectives attended a total of nine events.

We concluded that training costs were accurate and appropriate, and the training was directly related to gaming operations.

Vendor Investigation Costs and Payments

The compacts require vendors to pay in advance the costs of their background investigations, as assessed by the department. Those payments are to reduce the amount billed to the tribes in the month the department receives the payments. For the period reviewed, the department applied approximately \$600,000 in vendor payments to the monthly billings.

Based on our review of the billings, vendor payments were appropriately applied to the billings and the underlying vendor investigation costs were accurate and appropriate. Also, see discussion in the "Vendor Investigation Credit" section of this report.

Objectives, Scope and Methodology

The purpose of our audit was to determine whether billings to tribes during the 2003-2005 biennium were accurate, appropriate, and in accordance with tribal-state compacts.

We limited our review to the 2003-2005 biennium, except for those issues and procedures that warranted review beyond that time period to fully address the audit issues. Specific objectives for the audit included determining whether:

1. The credits the department returned to the tribes for retirement/resignation costs and vendor investigation costs were accurate.
2. Staff time was accurately recorded and used correctly in the billings allocation formula or appropriately billed to vendors.
3. Travel and training costs were reasonable, accurate, and directly related to tribal gaming oversight and monitoring.
4. Vendor investigation costs were accurate, appropriate, and in accordance with tribal compacts.
5. Vendor payments were appropriately applied to the monthly billing amounts to reduce amounts owed by the tribes.

To gain an understanding of concerns regarding the department's activities, we talked with representatives from seven of the nine Oregon Indian Tribes that have gaming compacts with the State. We also interviewed former and current department staff. We reviewed documentation related to selected expenditure categories such as payroll, payroll expenses, assessments, services and supplies, and rent.

We relied on information in the state's financial accounting and payroll systems to support our conclusions about the department's billings to the tribes. We assessed the reliability of the information by comparing transactions to supporting documents and performing analytical procedures. We found the data to be sufficiently reliable for the purposes of our audit.

We performed our fieldwork from October 2005 to May 2006.

We conducted this audit in accordance with generally accepted government auditing standards.



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The courtesies and cooperation extended by the officials and staffs of the Oregon State Police and Tribal Gaming Section were commendable and much appreciated.

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