

Oregon Audits Division

State Auditor's Report 2005-2007 Biennium

Bill Bradbury, Secretary of State

Charles Hibner, Director



Auditing to protect the public interest and improve Oregon government.

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 No. 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 No. 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 staff's professional development.

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 Government Waste 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 Amendments of 1996, which requires such an audit annually as a condition of eligibility for approximately \$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 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 statewide single audit, which is conducted in accordance with the Single Audit Act Amendments of 1996, Government Auditing Standards, and the U. S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. This audit includes our audit of the state's Comprehensive Annual Financial Report and our reports on the state's internal control over financial reporting and compliance with federal program requirements. We perform the statewide 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 approximately \$6 billion that it provides the state each year. Because underwriters, bond rating companies, and potential investors may rely on these statements and reports, the audit work we perform represents a critical element in the state's financial system.

Business failures and financial scandals 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 16 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 the 2005-2007 biennium, we contracted out 20 financial statement opinion audits and 14 audits of federal programs. In compliance with ORS 297.210(2), we completed 18 change-of-director reviews. Finally, we completed 10 financial resource audits, which focus on compliance and/or improving fiscal controls.

2005-07 Financial Audits

- Oregon Short-Term Fund: An Investment Pool of the State of Oregon For the Year Ended June 30, 2005 (No. 2005-22) August 31, 2005
- Enterprise Funds of the State of Oregon Housing and Community Services Department: Comprehensive Annual Financial Report For the Year Ended June 30, 2005 (No. 2005-27) November 18, 2005
- Oregon Public Employees Retirement System: Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2005 (No. 2005-29; Management Letter No. 459-2006-01-02) December 2005
- State of Oregon Comprehensive Annual Report For the Fiscal Year Ended June 30, 2005, December 31, 2005
- State of Oregon Statewide Single Audit Report For The Year Ended June 30, 2005 (No. 2006-04) March 1, 2006
- Columbia River Gorge Commission July 1, 2004, to June 30, 2005 (No. 2006-05) March 2, 2006
- Oregon State Lottery For the Year Ended June 30, 2005 (No. 2006-06; Management Letter No. 177-2006-02-01) March 9, 2006
- Oregon Economic Community Development Department: Special Public Works Fund and Water Fund For the Fiscal Year Ended June 30, 2005 (No. 2006-09; Management Letter No. 123-2006-04-01) April 4, 2006
- Department of Energy: Small Scale Energy Loan Program For the Years Ended June 30, 2005 and 2004 (No. 2006-12) April 14, 2006
- Oregon Short-Term Fund An Investment Pool of the State of Oregon For the Year Ended June 30, 2006 (No. 2006-30) September 1, 2006
- State Landscape Architect Board For the Two Years Ended June 30, 2005 (No. 2006-37) October 13, 2006
- Enterprise Funds of the State of Oregon Housing and Community Services Department: Comprehensive Annual Financial Report For the Year Ended June 30, 2006 (No. 2006-40) November 18, 2006
- Oregon Public Employees Retirement System: Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2006 (No. 2006-41) December 2006
- State of Oregon Comprehensive Annual Report For the Fiscal Year Ended June 30 , 2006, December 29, 2006
- Oregon State Lottery For the Year Ended June 30, 2006 (No. 2007-05) February 28, 2007
- State of Oregon Statewide Single Audit Report For The Year Ended June 30, 2006 (No. 2007-06) February 28, 2007
- Columbia River Gorge Commission July 1, 2005 to June 30, 2006 (No. 2007-07) March 16, 2007
- Department of Energy Small Scale Energy Loan Program For the Fiscal Years Ended June 30, 2006 and June 30, 2005 (No. 2007-09) March 30, 2007
- Oregon Economic and Community Development Department Special Public Works Fund and Water Fund For the Fiscal Year Ended June 30, 2006 (No. 2007-10) April 2, 2007
- Department of Environmental Quality Clean Water State Revolving Fund Program For the Fiscal Year Ended June 30, 2006 (No. 2007-12) June 1, 2007

2005-07 Financial Audit Management Letters

- Department of Administrative Services: Statewide Audit of Selected Financial Accounts For Year Ended June 30, 2005 (Management Letter No. 107-2006-01-01) January 3, 2006
- Oregon Housing and Community Services Department: Statewide Audit of Selected Federal Awards Year Ended June 30, 2005 (Management Letter No. 914-2006-01-01) January 3, 2006
- Oregon Military Department: Statewide Audit of Selected Financial Accounts For Year Ended June 30, 2005 (Management Letter No. 248-2006-01-01) January 5, 2006
- Oregon Judicial Department: Statewide Audit of Selected Financial Accounts For Year Ended June 30, 2005 (Management Letter No. 198-2006-01-01) January 9, 2006
- Department of Environmental Quality: Statewide Audit of Selected Financial Accounts Year Ended June 30, 2005 (Management Letter No. 340-2006-01-01) January 10, 2006
- Oregon Parks and Recreation Department: Statewide Audit of Selected Financial Accounts For Year Ended June 30, 2005 (Management Letter No. 634-2006-01-01) January 10, 2006
- Department of Forestry: Statewide Audit of Selected Financial Accounts For Year Ended June 30, 2005 (Management Letter No. 629-2006-01-01) January 11, 2006
- Department of Revenue: Statewide Audit of Selected Financial Accounts For Year Ended June 30, 2005 (Management Letter No. 150-2006-01-01) January 11, 2006
- Department of Fish and Wildlife: Statewide Single Audit of Selected Financial Accounts for the Year Ended June 30, 2005 (Management Letter No. 635-2006-01-01) January 12, 2006
- Department of Consumer and Business Services: Statewide Audit of Selected Financial Accounts For Year Ended June 30, 2005 (Management Letter No. 440-2006-01-01) January 13, 2006
- Department of Education: Statewide Single Audit Selected Financial Accounts For Year Ended June 30, 2005 (Management Letter No. 581-2006-01-01) January 13, 2006
- Oregon State Police: Statewide Audit of Selected Financial Accounts and Federal Awards Year Ended June 30, 2005 (Management Letter No. 257-2006-01-01) January 13, 2006
- Department of State Lands: Statewide Audit of Selected Financial Accounts For Year Ended June 30, 2005 (Management Letter No. 141-2006-01-01) January 19, 2006
- Oregon Youth Authority: Statewide Audit of Selected Financial Accounts For Year Ended June 30, 2005 (Management Letter No. 415-2006-01-01) January 20, 2006
- Oregon Department of Economic and Community Development: Statewide Audit of Selected Federal Awards Year Ended June 30, 2005 (Management Letter No. 123-2006-01-02) January 31, 2006
- Department of Education: Subrecipient Monitoring For the Year Ended June 30, 2005 (Management Letter No. 581-2006-02-01) February 2, 2006
- Department of Human Services: Statewide Single Audit Including Selected Financial Accounts and Federal Awards Year Ended June 30, 2005 (Management Letter No. 100-2006-02-02) February 9, 2006
- Oregon Department of Transportation: Statewide Audit of Selected Financial Accounts and Federal Awards for the Year Ended June 30, 2005 (Management Letter No. 730-2006-02-01) February 13, 2006

2005-07 Financial Audit Management Letters (cont.)

- Employment Department: Statewide Audit of Selected Financial Accounts and Federal Awards Year Ended June 30, 2005 (Management Letter No. 471-2006-02-01) February 13, 2006
- Oregon Youth Authority: Statewide Audit of Financial Accounts for Year Ended June 30, 2006 (Management Letter No. 415-2006-12-01) December 19, 2006
- Oregon Military Department: Selected Financial Accounts for Year Ended June 30, 2006 (Management Letter No. 248-2007-01-01) January 2, 2007
- Employment Department: Statewide Audit of Selected Financial Accounts for the Year Ended June 30, 2006 (Management Letter No. 471-2007-01-01) January 3, 2007
- Oregon Judicial Department: Statewide Audit of Selected Financial Accounts For Year Ended June 30, 2006 (Management Letter No. 198-2007-01-01) January 4, 2007
- Oregon State Police: Statewide Audit of Selected Financial Accounts for the Year Ended June 30, 2006 (Management Letter No. 257-2007-01-01) January 4, 2007
- Department of Environmental Quality: Statewide Audit of Selected Financial Accounts Year Ended June 30, 2006 (Management Letter No. 340-2007-01-01) January 5, 2007
- Department of Administrative Services: Statewide Audit of Selected Financial Accounts For Year Ended June 30, 2006 (Management Letter No. 107-2007-01-01) January 8, 2007
- Oregon Department of Forestry: Statewide Audit of Selected Financial Accounts for Year Ended June 30, 2006 (Management Letter No. 629-2007-01-01) January 12, 2007
- Department of Revenue: Statewide Single Audit of Selected Financial Accounts For Year Ended June 30, 2006 (Management Letter No. 150-2007-01-01) January 12, 2007
- Oregon Parks and Recreation Department: Statewide Audit of Selected Financial Accounts For Year Ended June 30, 2006 (Management Letter No. 634-2007-01-01) January 16, 2007
- Department of Consumer and Business Services: Statewide Audit of Selected Financial Accounts For Year Ended June 30, 2006 (Management Letter No. 440-2007-01-01) January 24, 2007
- Oregon Department of Fish and Wildlife: Statewide Single Audit of Selected Financial Accounts and Federal Awards for the Year Ended June 30, 2006 (Management Letter No. 635-2007-01-01) January 26, 2007
- Department of State Lands: Statewide Audit of Selected Financial Accounts For Year Ended June 30, 2006 (Management Letter No. 141-2007-01-01) January 29, 2007
- Oregon Housing and Community Services Department: Statewide Audit of Selected Federal Awards Year Ended June 30, 2006 (Management Letter No. 914-2007-02-01) February 1, 2007
- Community Colleges and Workforce Development Department: Statewide Single Audit of Selected Federal Awards for the Year Ended June 30, 2006 (Management Letter No. 586-2007-02-01) February 5, 2007
- Oregon Department of Transportation: Statewide Audit of Selected Financial Accounts and Federal Awards for the Year Ended June 30, 2006 (Management Letter No. 730-2007-02-01) February 6, 2007
- Department of Environmental Quality: Statewide Single Audit of Selected Federal Awards Year Ended June 30, 2006 (Management Letter No. 340-2007-02-01) February 8, 2007

2005-07 Financial Audit Management Letters (cont.)

- Office of Private Health Partnerships: Statewide Audit of Selected Federal Awards for Year Ended June 30, 2006 (Management Letter No. 442-2007-02-01) February 14, 2007
- Department of Human Services: Statewide Audit of Selected Financial Accounts and Federal Awards for the Year Ended June 30, 2006 (Management Letter No. 100-2007-02-01) February 20, 2007
- Department of Corrections: Statewide Audit of Selected Financial Accounts For Year Ended June 30, 2006 (Management Letter No. 291-2007-03-01) March 23, 2007
- Department of Education: Statewide Audit of Selected Financial Accounts and Subrecipient Monitoring For Year Ended June 30, 2006 (Management Letter No. 581-2007-03-01) April 3, 2007

2005-07 Contracted Financial Audits

- SAIF Corporation Financial Statements as of and for the Year Ended December 31, 2004 On the Basis of Generally Accepted Accounting Principles (GAAP) (No. 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 (No. 2005-25) September 14, 2005
- Oregon Beef Council For the Year Ended June 30, 2005 (No. 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 (No. 2005-28) December 1, 2005
- Oregon University System: 2005 Annual Financial Report (No. 2005-30) December 2005
- Appraiser Certification and Licensure Board A Semi-Independent Agency For the Biennium Ended June 30, 2005 (No. 2006-19) August 31, 2006
- State Board of Architect Examiners A Semi-Independent Agency For the Biennium Ended June 30, 2005 (No. 2006-20) August 31, 2006
- State Board of Examiners for Engineering and Land Surveying A Semi-Independent Agency For the Biennium Ended June 30, 2005 (No. 2006-21) August 31, 2006
- State Board of Geologist Examiners A Semi-Independent Agency For the Biennium Ended June 30, 2005 (No. 2006-22) August 31, 2006
- State Landscape Contractors Board A Semi-Independent Agency For the Biennium Ended June 30, 2005 (No. 2006-23) August 31, 2006
- State Board of Massage Therapists A Semi-Independent Agency For the Biennium Ended June 30, 2005 (No. 2006-24) August 31, 2006
- Oregon Board of Optometry A Semi-Independent Agency For the Biennium Ended June 30, 2005 (No. 2006-25) August 31, 2006
- Oregon Patient Safety Commission A Semi-Independent Agency For the Biennium Ended June 30, 2005 (No. 2006-26) August 31, 2006
- Physical Therapist Licensing Board A Semi-Independent Agency For the Biennium Ended June 30, 2005 (No. 2006-27) August 31, 2006

2005-07 Contracted Financial Audits (cont.)

- Oregon Wine Board A Semi-Independent Agency For the Biennium Ended June 30, 2005 (No. 2006-28) August 31, 2006
- SAIF Corporation Financial Statements as of and for the Years Ended December 31, 2005 and 2004 (No. 2006-31) September 1, 2006
- SAIF Corporation Financial Statements—Statutory Basis as of and for the Years Ended December 31, 2005 and 2004 (No. 2006-32) September 1, 2006
- Oregon Beef Council For the Year Ended June 30, 2006 (No. 2006-36) October 4, 2006
- Oregon Department of Veterans' Affairs: Annual Financial Report Enterprise Funds For the Fiscal Years Ended June 30, 2006 and June 30, 2005 (No. 2006-38) November 13, 2006
- Oregon University System: 2006 Annual Financial Report (No. 2006-39) December 2006

2005-07 Change of Director Reviews

- Department of Land Conservation and Development: Change of Director Review (Management Letter No. 660-2006-01-01) January 10, 2006
- Oregon Department of Economic and Community Development: Change of Director (Management Letter No. 123-2006-01-01) January 13, 2006
- Oregon Board of Investigators: Change of Director Review (Management Letter No. 259-2006-01-01) January 13, 2006
- Oregon Student Assistance Commission: Change of Director Review (Management Letter No. 575-2006-01-01) January 26, 2006
- Oregon Parks and Recreation Department: Oregon State Fair and Exposition Center Change of Director Review (Management Letter No. 634-2006-02-01) January 31, 2006
- Oregon Department of Fish and Wildlife: Change of Director Review (Management Letter No. 635-2006-02-01) February 1, 2006
- Department of Administrative Services: Change of Director Review (Management Letter No. 107-2006-02-01) February 7, 2006
- Employment Department: Change of Director Review (Management Letter No. 471-2006-05-01) May 8, 2006
- Department of Human Services: Change of Director Review (Management Letter No. 100-2006-05-01) May 9, 2006
- Oregon Department of Transportation: Change of Director Audit (Management Letter No. 730-2006-05-01) May 22, 2006
- Oregon Department of Economic and Community Development: Change of Director Review (Management Letter No. 123-2006-07-01) July 25, 2006
- Oregon Housing and Community Services Department: Change of Director Review (Management Letter No. 914-2006-08-01) August 15, 2006
- Oregon Liquor Control Commission: Change of Director Review (Management Letter No. 845-2006-08-01) August 15, 2006
- Department of State Lands: Change of Director Review (Management Letter No. 141-2006-08-01) August 29, 2006

2005-07 Change of Director Reviews (cont.)

- Office of Public Defense Services: Change of Director Review (Management Letter No. 404-2007-03-01) March 6, 2007
- Oregon Department of Fish and Wildlife: Change of Director Review (Management Letter No. 635-2007-05-01) May 17, 2007
- Government Standards and Practices Commission: Change of Director Review (Management Letter No. 199-2007-05-01) May 17, 2007
- Oregon Housing and Community Services Department: Change of Director Review (Management Letter No. 914-2007-05-01) May 17, 2007

2005-07 Fiscal Resource Audits

Insurance Pool Governing Board: Cash Controls Audit for the Period of July 1, 2004 Through March 31, 2005 (Management Letter No. 442-2005-07-01) July 13, 2005 – We found that the board could improve controls to ensure funds are deposited within one business day of receipt as required by *Oregon Revised Statute 293.265*.

Oregon State Board of Nursing: Review of Internal Controls Over Receipting, Handling and Disbursing of Cash For the Period July 1, 2003 through December 31, 2004 (Management Letter No. 851-2005-08-01) August 25, 2005 – We concluded the board had established sufficient controls over the receipting, handling and disbursing of cash. We also completed a review of SPOTS purchases and recommended that the board review its spending for meals and refreshments using per diem rates as a guideline and discontinue giving retirement gifts.

Department of Human Services: Review of Small Purchase Order Transaction System (SPOTS) Transactions (Management Letter No. 100-2005-09-01) September 20, 2005 – We identified opportunities for improvements in the controls over SPOTS purchases.

Oregon Judicial Department: Review of Services and Supplies Expenditures for Period July 1, 2003 Through January 31, 2004 (Management Letter No. 198-2005-09-01) September 21, 2005 – For the most part, we found that controls over services and supplies expenditures were effectively designed and functioning properly.

Oregon State Police Tribal Gaming Section: Billings Audit (No. 2006-16) June 26, 2006 – The purpose of this audit 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”. We concluded that the 2003-2005 billings were accurate, appropriate, and in accordance with the compacts. The department could, however, 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.

2005-07 Fiscal Resource Audits (cont.)

Oregon Department of Aviation: Expenditure Audit Fiscal Year 2005 (No. 2006-18)
 August 21, 2006 – We found the department’s internal controls over payroll and SPOTS expenditures to be in place and functioning as intended. We also determined the department did not follow state records retention rules and violated state contracting laws in relation to at least \$1,166,027 in contract payments during fiscal year 2005.

Oregon Parks and Recreation Department: Cash Controls Audit (No. 2006-29)
 September 1, 2006 – We found the department documented and implemented appropriate controls over cash disbursements. We did, however, identify opportunities for the department to improve controls over cash receipts to ensure cash received is appropriately recorded, deposited and safeguarded from loss or theft

Department of Human Services: Review of Small Purchase Order Transaction System SPOTS Purchases in 2005 (Management Letter No. 100-2006-09-01) September 11, 2006 – We identified opportunities for the Oregon State Hospital to improve controls over SPOTS purchases. We recommended that the hospital implement limits and guidelines on employee spending, including purchases for patient outings; and develop and implement internal controls intended to prevent, detect, and deter unauthorized or inappropriate purchases.

Compliance Audit of Measure 66 for 2003-05 Biennium (No. 2007-01) January 31, 2007 – 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. Measure 66 dedicated a portion of lottery fund proceeds for parks, beaches, and habitat and watershed restoration. The audit objectives include steps to measure the financial integrity, effectiveness and performance of these agencies. We perform an audit of Measure 66 expenditures at the end of each biennium. State agencies spent approximately \$113 million in Measure 66 funds between July 1, 2003, and June 30, 2005. 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 through June 30, 2005, were 60 percent capital in nature. Currently, Measure 66 funds are dedicated through the year 2014. Final compliance with the requirement that at least 65 percent be capital expenditures will be determined in the year 2014. We issued the following management letters as part of this audit:

- Oregon Department of Agriculture: Constitutionally Mandated Audit of Agencies Having Measure 66 Expenditures for 2003-05 Biennium (*Management Letter No. 603-2007-01-01M66*) January 25, 2007
- Oregon Department of Environmental Quality: Constitutionally Mandated Audit of Agencies Having Measure 66 Expenditures for 2003-05 Biennium (*Management Letter No. 340-2007-01-01M66*) January 25, 2007
- Oregon Department of Fish and Wildlife: Constitutionally Mandated Audit of Agencies Having Measure 66 Expenditures for 2003-05 Biennium (*Management Letter No. 635-2007-01-01M66*) January 25, 2007
- Oregon Watershed Enhancement Board: Constitutionally Mandated Audit of Agencies Having Measure 66 Expenditures for 2003-05 Biennium (*Management Letter No. 691-2007-01-01M66*) January 25, 2007
- Oregon State Police: Constitutionally Mandated Audit of Agencies Having Measure 66 Expenditures for 2003-05 Biennium (*Management Letter No. 257-2007-01-01M66*) January 25, 2007

2005-07 Fiscal Resource Audits (cont.)

Oregon State Police: Review of Accounting Procedures Related to Dedicated Funds For Fiscal Year Ended June 30, 2006 (Management Letter No. 257-2007-02-02)

February 22, 2007 – The purpose of the review was to determine if funds for specific programs at the department were being accounted for according to generally accepted accounting principles and in compliance with state laws and regulations. We did not identify any conditions related to accounting procedures, internal control or noncompliance with applicable laws and regulations regarding the department’s dedicated funds.

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 carry 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 they 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 the 2005-2007 biennium, we released 16 performance audit reports. Of those, 13 audits focused on fiscal accountability to ensure that public funds were used economically and efficiently, and 3 were informational reports designed to facilitate decision-making. We also completed assessments at two agencies that identified management risks and actions the agencies could take to mitigate those risks. The fiscal accountability audits identified cost savings or questioned costs totaling more than \$23 million, or \$6.50 for every \$1 of audit costs.

2005-07 Fiscal Accountability Audits

State Agency Use of Metered Equipment (No. 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. Our analysis also pointed towards some potential opportunities for agencies to develop usage data and usage standards to help identify sharing or rental opportunities within their own metered equipment fleets, further improving their cost effectiveness. A limiting factor for our analysis was the lack of available and accurate equipment usage data. Three of the six agencies we reviewed did not have usage data that was complete and accurately reflected equipment in their possession. Lack of this information would limit, if not prohibit, systemic identification of those interagency sharing opportunities that may exist.

We developed a minimum-use standard in order to identify a pool of lightly used equipment for our review. Our standard focused on an economic breakeven point where a particular piece of equipment, based exclusively on usage, may be cheaper to rent than to own. We noted through this analysis many of the agencies had not developed a similar minimum-use standard that would point towards equipment that may more suitably be 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.

We 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. We also noted interagency sharing is not a function commonly coordinated by fleet managers, and that those instances we did find were generally a result of arrangements made by the local work teams or area managers.

Department of Corrections: Madras Correctional Facility Construction Contract Review

(No. 2006-02) February 22, 2006 – We reviewed the pre-construction and early work phases of the Department of Corrections (department) Madras correctional facility construction project. The purpose of our audit was to determine if project costs, change orders, and contract amendments were in accordance with contract terms and if payroll, equipment rentals, and travel costs were reasonable. The department is constructing the new Madras minimum and medium security correctional facility to accommodate a growing prison population. The department received legislative approval in 2005 for \$190 million to construct the facility; as of September 2005, close to \$5 million of pre-construction and early work was completed. Pre-construction and early work are the first phases of the construction project; we chose to review these phases so the department may implement opportunities for improvement for the remainder of the project

We found that for the pre-construction and early work phases of the Madras correctional facility construction project, change orders and contract amendments reviewed were in accordance with contract terms. We also found that payroll, equipment rentals, and travel costs paid generally complied with contract terms and were reasonable. However, we did find the department reimbursed the contractor approximately \$10,500 for hours claimed that did not agree to contractor employee timesheets and payroll rates higher than contracted rates.

Oregon University System: Reser Stadium Construction At Oregon State University (No. 2006-07) March 9, 2006 – The purpose of this audit was to determine if, for the Oregon State University Reser Stadium construction project, costs were in accordance with contract terms and if payroll, equipment rented from the contractor, and travel costs were reasonable. The purpose was also to determine if the University had adequate processes in place for reviewing and approving contract amendments and change orders. This audit was conducted at the request of the Oregon University System.

The Oregon University System received legislative approval in 2003 for \$110 million, and an additional \$4 million in 2005 to expand and renovate Reser Stadium at Oregon State University in Corvallis. The project included the construction of a 1,000-car parking garage. The project was funded through \$70 million in Article XI-F (1) bonds and \$44 million in other revenues, including private donations.

We found that for the Reser Stadium construction project, costs reviewed were generally in accordance with contract terms, and payroll, equipment rented from the contractor, and travel costs generally were reasonable. We did find instances in which payroll and equipment rental costs did not comply with contract terms, resulting in an overpayment to the contractor. We also identified underpayments made by the contractor to two union carpenters. However, the total incorrect payments identified were less than one-quarter of 1 percent of the total payments reviewed. The small percentage of incorrect payments found in our audit might be attributable, at least in part, to efforts made by Oregon State University to apply lessons learned from previous Oregon University System construction projects to the Reser Stadium construction project. We also found that the University had adequate processes in place for reviewing and approving contract amendments and change orders.

Oregon Judicial Department: Indigent Defense Eligibility and Fee Determinations (No. 2006-08) March 28, 2006 – This audit report focuses on the Oregon Judicial Department's role in administering the state's indigent defense program. Our audit objectives were to determine whether people who received court-appointed counsel met financial eligibility requirements; whether verification specialists recommended application and contribution fees consistent with department guidelines; the extent to which judges' decisions regarding appointing counsel and assessing application and contribution fees differed from verification specialists' recommendations and the general reasons for these differences; and judges' recoupment practices for defendants who receive court-appointed counsel. To answer these audit objectives, we reviewed a sample of 203 adult felony and misdemeanor cases in which defendants received court-appointed counsel during October through December 2004.

The Oregon Judicial Department (department) is responsible for determining whether applicants for court-appointed counsel meet financial eligibility requirements. Department staff called verification specialists does this by reviewing information applicants provide about their income, assets, and expenses. Verification specialists also determine whether those found eligible for court-appointed counsel are able to pay an application fee and contribute an amount toward the cost of their defense. Judges have the final say as to eligibility, application fees, and contribution amounts. Judges are also responsible for considering, at the end of a case, whether a defendant's financial circumstances have changed such that an additional amount can be recouped to further offset defense costs.

Applicants who received court-appointed counsel did not always meet financial eligibility requirements. Based on our analysis, defendants were ineligible for these services in about 10 percent of the cases we reviewed. In 5.5 percent of cases, defendants' available resources exceeded eligibility guidelines. In most of these cases, verification specialists

incorrectly determined defendants' household income, liquid assets and/or allowable expenses when screening them for eligibility. Our review of wage data showed that in an additional 4.5 percent of cases, defendants earned more than they declared when applying for court-appointed counsel. We estimate that the total net cost to the state of providing indigent defense to ineligible defendants ranged from about \$307,000 to \$608,000 during the last quarter of 2004. Assuming this was an average quarter, and if no changes were made to the program, annual net costs would range from \$1.2 million to \$2.4 million in a year, depending on the department's collection results.

We also found that verification specialists did not consistently follow department guidelines when recommending application and contribution fees. They deviated from the application fee guidelines in about 7 percent of the cases we reviewed. In half of these cases, verification specialists recommended that defendants without sufficient resources pay the \$20 application fee. In the other half, they failed to recommend that defendants with ample resources pay the fee. Verification specialists deviated from contribution guidelines in about 9 percent of the cases we reviewed. In 2 percent of cases, they recommended amounts exceeding the defendant's ability to pay, while in about 7 percent they should have recommended greater amounts. We estimate the net effect of not following the guidelines was about \$214,000 in contribution amounts that could have been recommended during the last quarter of 2004.

By using wage data, we identified an additional 1 percent of cases in which defendants could have paid the application fee and an additional 1.5 percent in which they could have contributed to defense costs. These additional cases represent about \$69,000 in application fees and contribution amounts defendants could have paid during the last quarter of 2004. Our estimate of the combined annual total of forgone contribution amounts and application fees is about \$885,000.

Judges' decisions regarding appointing counsel and assessing application and contribution fees rarely differed from verification specialists' recommendations. Specifically, judges' decisions differed from verification specialists' recommendations in about 1 percent of our sample cases. We also found that most judges imposed recoupment. Specifically, we surveyed 16 judges from various judicial districts in Oregon and found that 14 of them consistently imposed recoupment.

Oregon Department of Transportation: Engineering Services Cost Analysis (No. 2006-10) April 5, 2006 – The purpose of our audit was to determine if the Department of Transportation's (department) methods of obtaining design engineering services for projects has resulted in the lowest possible cost to the state. We shared our findings and recommendations with the department after we completed our initial fieldwork. Subsequently, we performed additional fieldwork to assess the department's progress, within its restructured contracting process, to address the issues we identified. This report serves to summarize our initial audit results and findings, as well as to report on what the agency has done to address these areas of concern.

The national trend in design engineering for highway projects shows an increased use of private sector design engineer consultants. This trend has also occurred in Oregon, where recent legislation has dramatically increased the department's need for consultants to meet design engineering demand. The Oregon Transportation Investment Act (OTIA) passed by the legislature in 2001, added \$500 million to the department's budget for road construction projects. In 2003, the legislature added an additional \$2.5 billion to fund OTIA projects. According to the department, \$700 million of the \$3 billion total will be spent on design engineering services. However, the department did not receive funding for additional in-house engineering capacity.

We found the department neither aggressively negotiated price with consultants, nor did it have the cost information necessary to establish strong negotiating positions. When we compared consultant and departmental design engineering costs for a variety of projects, we found in-house design engineering services were about 20 percent less expensive. Further, the department was losing engineering expertise at an alarming rate. Our follow-up found that although department management demonstrated an awareness of the improvements needed, actual implementation of negotiation and evaluation process improvements has been slow.

Department of Administrative Services: Review of Statewide Facilities Maintenance Processes (No. 2006-11) April 11, 2006 – The purpose of our audit was to determine if the state has a statewide maintenance planning and funding process that effectively uses its current resources to minimize deterioration of its facilities. In 1997, the Oregon Legislature established a "statewide planning process" to deal with facilities maintenance issues (ORS 276.227). The "statewide planning process" under ORS 276.227 excludes the Oregon University System. The goals of this process are to provide comparative information on the condition of facilities, evaluate the needs of facilities, establish guidelines and standards for managing and maintaining facilities, and to provide financing and budgeting strategies to allocate resources to facilities needs. These requirements are similar to recommendations made in a 1992 Oregon Audits Division audit, *Facilities Management: Opportunities To Reduce The Long-Term Cost Of Providing Space*.

Although improvements have been made, we found the state has not fully implemented a statewide maintenance planning and funding process. The deterioration of state facilities remains a costly, chronic problem. Deferred maintenance, as reported by the Department of Administrative Services and the Oregon University System, exceeds \$600 million. Without a fully implemented statewide process to identify, prioritize, and help minimize deferred maintenance costs, some high-priority maintenance may not be addressed until a costly and avoidable failure occurs.

The state faces several barriers to fully implementing a statewide maintenance planning and funding process. For example, Department of Administrative Services management told us they would like to promote best practices for facilities maintenance and create more forms and standards for the "statewide planning process," but lack the resources to perform the work. Also, maintenance funding sources are often inflexible and available only to certain agencies, and under the current budget process funds designated for maintenance can be used for other agency purposes. A fully implemented statewide process would better comply with state law, and should assist in identifying facilities maintenance issues and strategies for overcoming barriers.

Department of Public Safety Standards and Training: Training Facility Construction Contract Review (No. 2006-14) April 11, 2006 – The purpose of our audit was to determine if the Department of Public Safety Standards and Training (department) training facility project costs for payroll, rental equipment, travel reimbursements, and subcontractor work were reasonable and in accordance with contract terms, and if adequate processes were in place to ensure contract amendments and change orders were in accordance with contract terms and state rules. The purpose was also to determine if contractor selection was conducted in accordance with state laws and rules.

The department received a legislative mandate in 1997 to increase basic police officer training from 8 to 16 weeks. The existing leased facilities did not allow for the mandatory expansion of training. In 1999, the Legislature directed the department to begin the design and site selection process for a new public safety training facility to accommodate the increased training requirements. A series of legislative actions authorized a total of \$77.8 million to construct the facility. At the request of the department, in 2004 we

provided department officials with a list of best practices to assist them in controlling project costs and risks.

As of October 2005, total construction costs to date were approximately \$40 million. The facility project is scheduled for completion in July 2006. We found that for the training facility project, payroll, rental equipment, travel reimbursements, and subcontractor costs reviewed were reasonable and complied with contract terms. We also found the department had adequate processes in place to ensure contract amendments and change orders were in accordance with contract terms and state rules. Lastly, we found the selection of the contractor was in accordance with state laws and rules. Our results may be attributable, in part, to the department's implementation of contracting best practices, and to the department's detailed procedures for reviewing and approving project fund disbursements. For example, we found that the department developed procedures outlining documentation requirements for monthly contractor payment requests and detailing invoice review and approval requirements.

Department of Human Services: Medicaid In-Home Care Payments Review (No. 2006-15) May 22, 2006 – The purpose of our audit was to review the appropriateness of payments made to in-home care providers. We did this in two ways. First, we reviewed data maintained and utilized by the Department of Human Services' (department) Seniors and People with Disabilities Division (division) to determine if they indicated that in-home care providers did not provide the services for which they were paid. Second, we reviewed payment and client records at select field offices to determine whether there was evidence to support the in-home care service hours billed by and paid to providers, and whether vouchers were accurate and complete.

During calendar year 2004, the state paid nearly \$98.9 million to approximately 17,000 in-home care providers. The department uses a network of field offices to administer the in-home care program. Field office staff assesses clients' care needs and develops a service plan, which includes an authorized number of in-home care hours. The care hours can be authorized only when natural supports (unpaid resources such as relatives and friends) cannot adequately meet the needs of the client. Clients select their own provider(s) from Medicaid providers accepted into the program. Providers receive a voucher from the department that authorizes the maximum total number of hours to be worked. Providers complete their portion of the voucher by writing in beginning and ending dates of service and total hours worked, and signing the voucher. The client then signs and dates the voucher, attesting that the hours were actually worked. Finally, the provider sends the voucher to the field office, where staff processes the voucher for payment. Although we did not find extensive problems, our review indicated that in some instances in-home care providers did not provide the services for which they were paid.

Specifically, we found 31 providers who did not meet the department's availability expectations or had outside employment so extensive it was unlikely they could have provided the in-home care for which they were paid; 10 providers who continued to receive payments after clients transferred to another care setting; and 1 provider who received duplicate payments. In addition, we found 18 clients who were given too many care hours for self-management tasks. When we reviewed a sample of vouchers, which were essentially the only evidence for in-home care service hours billed and paid, we also found 45 clients whose voucher dates or signatures were questionable. Finally, while reviewing records associated with a sample of clients' service plans, we found 68 clients whose records had no narrative to explain increases in hours or the consideration of natural supports. We were not able to determine from field office records what portion of the \$476,245 paid to the 31 providers with extensive outside employment was for services not actually rendered. However, we found that the combined dollar impact of the cases when providers received payments after their clients transferred to another care setting, the

provider who received duplicate payments, and the in-home care hours that were incorrectly calculated was \$104,348.

As a result of this audit and its own internal reviews, the division has developed an action plan for improving program service delivery. According to division management, the following are actions included in the plan: running quarterly reports to monitor such things as duplicate payments, providers' outside employment, and providers with a high number of hours; sending policy transmittals to field offices to address payment issues; making policy and rule changes to clarify expectations regarding provider availability, documentation, and vouchers (including signatures, dates, and adjustment of hours); developing a process to review voucher adjustments; expanding field office reviews to include all areas related to services (e.g., current assessment, case narration, service plan monitoring, and payments); and providing technical assistance, mentoring, and formal trainings.

During our review of client records, we found seven overpayment cases that, according to division records, were referred to the division's Provider Payment Unit (unit) for collection. However, the unit had information on only three cases. Therefore, it appeared the division did not have an effective monitoring method to ensure overpayments are identified and processed for collection. According to the division, a workgroup was established in December 2005 to clarify overpayment policies and procedures. The division also plans to implement a monitoring system to ensure overpayments identified are processed for collection.

Oregon Department of Transportation: Oregon Transportation Investment Act III – Bridge Delivery Program (No. 2007-02) February 7, 2007 – The purpose of our audit was to determine whether the Oregon Department of Transportation's planning process for the Oregon Transportation Investment Act III Bridge Delivery Program resulted in cost-effective repair or replacement decisions. To address aging bridges that were exhibiting serious cracking problems, the Legislature passed House Bill 2041 in 2003, the third phase of the Oregon Transportation Investment Act (OTIA III). The bill provides for an investment of approximately \$2.5 billion to fund highway improvement projects over a ten-year period. Of this amount, \$1.3 billion was for the replacement or repair of state bridges. The bill authorized the department to issue revenue bonds totaling \$1.9 billion to finance the projects. Bond repayment will come from increased vehicle license and registration fees, truck weight mile taxes, a portion of the monies dedicated to the state modernization program, and traditional bridge program funding.

We found the department's initial OTIA III Bridge Delivery Program planning process resulted in bridge scoping decisions (repair, replace, or no work) being made without taking sufficient time to fully assess the bridges and without complete cost and load rating information. Many of the initial scoping decisions were later revised, indicating they were not cost-effective. Ideally, the department would have collected all the information necessary to accurately determine project scopes and estimate costs before requesting funding from the Legislature. This did not occur because department managers felt compelled to make initial scoping decisions quickly due to the possible seriousness of the bridge cracks.

Subsequently, the department began gathering additional information, including contracting with engineering firms for bridge assessments and with Oregon State University (OSU) for research on shear cracks. Beginning in September 2004, the department applied the results of the bridge assessments and the OSU research, along with updated department bridge inspections to reassess bridge scoping decisions for bridges in stages 2 through 5. Gathering the new information and reassessing the initial scoping decisions was vital for ensuring the department allocated program funding in the most cost-effective manner.

However, when we reviewed this process, we noted the following concerns:

- The repair/replace cost ratio the department required that the two engineering firms use when they completed more in-depth bridge assessments was unsubstantiated.
- Department engineers provided the engineering firms with assessment criteria that were similar to criteria used in the initial assessments, and directed the firms to include almost all possible repair costs in repair cost estimates. This limited the objectivity and value of the firms' bridge scoping verifications.
- While preliminary results of the research on shear cracks indicated more time could be taken to address the bridges, the department continued to pursue an aggressive timeline for bridges in stage 1 of the program. Although we would not expect the department to make scope changes based on preliminary results, we question whether the department should have continued with an accelerated process.

Notwithstanding the above concerns, we commend the department for using the new information to reassess OTIA III bridge scoping decisions and improve their cost effectiveness.

In addition to issues noted above, however, we have concerns in the following areas: the need to define when seismic and widening costs should be included for cost-ratio comparison purposes, the opportunity costs of repairing or replacing bridges that currently have the capacity to carry 99 percent of truckload trips, and the accuracy of information provided in update reports.

Oregon University System: Construction Audit of the Northwest Center For Engineering, Science and Technology at Portland State University (No. 2007-03) February 7, 2007 –

The purpose of this audit was to determine whether contracts for the construction of the Northwest Center for Engineering, Science and Technology (NWCEST) were awarded in accordance with Oregon University System (OUS) contracting policies and procedures. The purpose was also to determine whether Portland State University had processes in place to ensure payments to the project architect and contractors, contract amendments and contract change orders were reasonable and in accordance with contract terms. We conducted this audit at the request of the Oregon University System.

Between 2001 and 2003, the legislature approved approximately \$60.5 million in financing for construction of the NWCEST at Portland State University (University) The project included construction of a five-floor tower over an existing underground parking and office structure, and improvements to the existing structure.

We found that project contracts were awarded in accordance with OUS contracting policies and procedures. While we did find the project was completed ahead of schedule, the University did not have adequate policies and procedures in place to ensure all payments to project contractors, contract amendments and contract change orders were reasonable and in accordance with contract terms. Specifically, we identified the following recurring issues regarding the University's processes: inadequate supporting documentation and review of payment applications, contract amendments and contract change orders; and disorganized contract and project files. We also found the University paid the project construction manager in full for preliminary planning and construction management services before those services were completed.

Emergency Management, Oregon: Review of the Use of 9-1-1 Excise Tax Funds by the Town of Lakeview for Fiscal Years 2002 through 2005 (Management Letter No. 257-2007-02-01) March 5, 2007 – The purpose of this audit was to complete a review of the use of 9-1-1 excise tax funds by the town of Lakeview for fiscal years 2002 through 2005, as requested by the Oregon Emergency Management office. The objective was to determine whether the Town’s expenditures were consistent with allowed uses for those funds.

Our audit identified about \$5,400 of questionable expenditures from state 9-1-1 funds, which is less than 1 percent of the nearly \$700,000 in excise tax spent during the four-year period. Examples of these questionable costs include purchases for services that were not consistent with allowable uses for state 9-1-1 funds, improperly allocated expenses, and overtime pay for duties not directly related to 9-1-1. One questionable expenditure in fiscal year 2002, an incorrect payroll allocation in fiscal year 2003, and one questionable expenditure in fiscal year 2004 made up 84 percent of the total questionable costs for the four-year period.

Although the questionable expenditures appeared to be isolated instances, opportunities exist for Oregon Emergency Management (OEM) to take actions that should reduce the likelihood of such transactions occurring in the future. We recommend that OEM consider providing updated guidance on the uses of 9-1-1 funds that may not currently be covered explicitly in relevant Oregon Revised Statutes and Oregon Administrative Rules.

Oregon Health and Science University: Biomedical Research Building Construction Audit (No. 2007-08) March 16, 2007 – This audit addresses construction of the Oregon Health and Science University (university) Biomedical Research Building. Our objectives were to determine whether: contractor solicitation and selection were conducted in accordance with university public contracting policies; processes were in place to ensure payments for payroll, rental equipment and subcontractor work were reasonable; and contract payments, amendments and change orders were in accordance with contract terms and university public contracting policies. As of September 2006, the university’s total construction project budget for the 274,000 square-foot Biomedical Research Building was \$130.5 million, of which \$98 million was state funded and the remainder was funded through private gifts and university operating funds.

The university used a construction manager/general contractor (CM/GC) for the project and also contracted with a project management firm to assist with managing the project. Construction began in 2003, and the building opened in 2006.

The university did not follow its policies when it selected the project management firm and did not always retain solicitation and selection documentation as required by those policies. Also, the university’s process for reviewing CM/GC contractor payment applications and project management firm invoices appeared incomplete, including a lack of written procedures detailing what should be included in a payment review. By reviewing documentation we obtained directly from the CM/GC, we identified a small amount of payroll overcharges. Further, since the CM/GC could not provide complete information, we could not determine if some equipment rental charges exceeded contract allowable rates and if total rental charged for some equipment exceeded acquisition costs. Lastly, the university had adequate processes to ensure contract amendments and change orders were in accordance with contract terms and university policies.

Department of Education: ADM Reporting for Students Attending Union/Baker ESD's Alternative Education Programs (No. 2007-14) June 20, 2007

Our audit objective was to determine whether districts providing alternative education through the Union/Baker Educational Service District (ESD) misreported ADM to the Oregon Department of Education (department). For any misreported ADM, our objective was to determine the extent and causes of the misreporting, quantify the amount of state dollars distributed in error based on the misreported ADM, and make appropriate recommendations. We performed this work at the request of the department. We limited our review to the 1999-2000 through 2003-2004 school years. Forty-one districts contracted with the ESD for alternative educational services during our audit period.

The ESD was responsible for tracking attendance and reporting ADM to the districts for these services. The districts, in turn, were responsible for reporting this ADM to the department in order to receive State School Funds (SSF). We found that the districts that contracted with the ESD misreported 606 ADM to the department during our audit period. Specifically, we found that districts made the following errors: over-reported 356 ADM to the department due to the ESD recording and reporting excessive ADM in certain months; inappropriately claimed 225 ADM for students who were not residents of their districts; claimed 18 ADM for students who were either younger or older than allowed by state rules; and submitted seven ADM in duplicate claims for the same students during the same school years. We also found that one district submitted a claim for twice the ADM it should have. Because of this, the district claimed 20 ADM in error. As a result of these inappropriate claims, the department distributed approximately \$3.4 million in SSF to which the districts involved were not entitled.

Recently, the department implemented a new online reporting system that requires districts to report additional data for students claimed for ADM such as the student's date of birth, resident district, and enrollment and withdrawal dates. This new system should address some of our findings. However, the accuracy of claims depends on districts submitting accurate student data to the department. Currently, the department does not verify these data.

2005-07 Informational Reports

Oregon Youth Authority: Availability of Juvenile Offender Data (No. 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.

In 1995, the Oregon Legislative Assembly passed Senate Bill 1, which created the Oregon Youth Authority (Youth Authority) and requires the Secretary of State to regularly audit the Oregon juvenile justice system programs, policies and services as to their effectiveness in providing public safety and preventing a youth's return to criminal behavior. Senate Bill 1 also stated that the juvenile justice system "shall be open and accountable to the people of Oregon and their elected representatives." Centralized juvenile justice data can provide accurate and timely information to assist decision makers in making key decisions, such as those relating to program direction and the allocation of resources to areas that appear to have the greatest effect on reducing juvenile crime. In 1999, the Youth Authority established the Juvenile Justice Information System (JJIS). JJIS was intended to provide information about youths in the juvenile system across state, county and local agencies that was previously unavailable. In 2002, we audited JJIS and found that it provided useful information, but some data were not valid or entered consistently.

Since our 2002 audit, significant improvements have been made in the way juvenile offender data are captured and reported. 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.

Department of Education: K-12 Cost Survey and Spending Audits Follow Up (No. 2005-23) September 2, 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.

Department of Human Services: Information Audit of the Adoption Assistance Program (No. 2007-13) June 8, 2007 – The purpose of this audit was to provide information on the Adoption Assistance program, including the trends and reasons for growth in program costs, and possible cost containment measures other states have used. We focused our work on state funded only adoptions and on monthly subsidy payments.

The purpose of adoption assistance is to remove financial barriers and encourage the adoption of children with special needs. The number of children who received monthly adoption assistance payments increased steadily from approximately 4,400 to 8,900 between state fiscal years 1999 and 2005. Oregon's Adoption Assistance program receives funding from both the state and federal government, with approximately 20 percent of adoptions funded solely by the state. The average monthly payment for state funded adoption assistance was \$444.

The department's negotiation process for both federal and state funded adoption assistance focuses on the needs of the child and the ability of the family to incorporate the child into

their lifestyle. The adoption assistance subsidy rate is negotiated only when adoptive parents request a higher than standard rate.

In an attempt to contain the cost of the Adoption Assistance program, the department has implemented some cost containment measures, and has considered others. To obtain information about cost containment measures used by other states, we conducted a survey and reviewed other related information. We later followed up with states and found that most did not realize significant cost savings or slow the rate of growth as a result of the measures implemented. Only three of the states reported effective cost containment methods, and two of those methods have been implemented or attempted in Oregon. A third method, to limit monthly subsidy payments for young children without diagnosed special needs, could potentially provide an additional cost containment measure for Oregon.

While reviewing state funded adoptions finalized between July 1, 2003 and June 30, 2005 we found that 31 children were incorrectly coded in the department's payment system. This resulted in incorrect billings of the federal government for monthly subsidy payments. We also found that the department does not conduct required annual reviews of adoptive families to re-determine eligibility for adoption assistance payments.

2005-07 Management Risk Assessments

Oregon Department of Transportation: OTIA III State Bridge Delivery Program
(Management Letter No. 730-2005-08-01) August 24, 2005

Liquor Control Commission, Oregon: Broad-Based Risk Assessment *(Management Letter No. 845-2007-03-01) March 29, 2007*

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 the 2005-2007 biennium, we issued five information technology reports. These audits focused on general and application controls, security, and system development of mission critical information systems.

2005-07 Information Technology Audits

Department of Justice: Child Support Enforcement Automated System (CSEAS) Application Controls Review (No. 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. Specific issues included:

- 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.
- 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.

Department of Administrative Services: Computing and Networking Infrastructure Consolidation (CNIC) Risk Assessment (No. 2006-33) September 5, 2006 –

The Department of Administrative Services is responsible for providing centralized services to state agencies. In July 2004, the governor accepted the department's proposal to consolidate 12 of the state's major data processing centers. The majority of funding for the resulting Computing and Networking Infrastructure Consolidation (CNIC) project was authorized by the 2005 legislature. The total anticipated cost of the project was approximately \$63.6 million.

The purpose of this audit was to provide an interim evaluation of the department's CNIC project. Our primary audit objectives were to determine whether the department planned and managed the CNIC project to ensure its overall success.

During our review we identified several significant weaknesses in the department's project planning and management processes that adversely affected the integrity and viability of the CNIC project. These included the following:

- Initial project planning weaknesses led to unrealistic project expectations, objectives and timelines, causing the department to duplicate its efforts to adopt a more feasible consolidation strategy. We concluded that these changes were justified and likely necessary to help mitigate significant project risks. However, the changes would delay promised savings by at least one biennium.

- Revised project plans remained incomplete regarding how, when or to what degree consolidation of data center resources would occur or how some critical security and disaster recovery services would be provided.
- Because of ineffective contract management, it was unclear what value the state received from at least \$3.4 million of contract dollars spent. In addition, the department may have limited its ability to obtain remedy for those dollars spent.
- The absence or ineffectiveness of independent quality assurance processes also likely impacted decision makers' view of project risk, cost, and benefit.

Oregon Housing and Community Services Department: Risk Assessment of Information Technology Controls (Management Letter No. 914-2006-10-01) October 10, 2006 – The objective of this engagement was to support our annual financial audit of the department by evaluating some of the important general computer controls. General controls protect the environment in which software applications operate by ensuring security of data and systems, continuous service, and proper management of systems development and modifications to existing applications. We noted several areas where the department could improve its general controls.

Oregon Public Employees Retirement System: jClarety Application Controls Review (No. 2007-04) February 14, 2007 – The purpose of our audit was to evaluate the effectiveness of key general and application computer controls relating to the Oregon Public Employees Retirement System's (PERS) current implementation of the jClarety computer application (application). Our specific audit objectives were to determine whether PERS had implemented controls to reasonably ensure data integrity, system security, program change management, and system backup and recovery.

Based on our audit work we found that:

- Modifications to jClarety program code followed approved change management procedures.
- Application controls provided reasonable assurance that valid information entered into the system would remain complete and accurate during processing and output. However, those controls did not effectively prevent or detect some data errors.
- Adjusting entries made by PERS staff were not always reviewed, approved or validated, increasing the likelihood that inappropriate data transactions or errors could be introduced into the system.
- The agency's security framework did not adequately protect the application and its data. Because of their sensitive nature, we issued a separate report detailing our security findings and recommendations. ORS 192.501 (23) exempts such information from public disclosure.
- Agency procedures did not ensure all system files and data were appropriately backed up to facilitate timely restoration.

Oregon Department of Human Services: Combined Check Reconciliation System & Accounting Interface Application Controls Review (No. 2007-15) June 21, 2007 –

The purpose of this audit was to evaluate the effectiveness of key general and application computer controls relating to the Oregon Department of Human Services' Combined Check Reconciliation System & Accounting Interface. Our specific audit objectives were to determine whether the department implemented processes to reasonably ensure system data integrity, backup and recovery, program change management, and logical access control.

In general, the department's application controls provided reasonable assurance that most data would remain complete, accurate and valid during system input, processing and output. However, those controls were not as effective for manually adjusted transactions. Control weaknesses relating to these adjustments increased the likelihood that inappropriate or erroneous information could be entered into the system and transferred to the state's accounting system. It was also unlikely the department could timely, or fully, restore system information from off-site backup tapes because some critical system files were not appropriately backed up to tape and because the department lacked a defined and tested recovery plan. We also found that program change management controls did not always follow generally accepted control practices. Specifically, technical reviews of modified code were not always performed, approved code changes were not adequately safeguarded, and certain production data sets were directly modified by staff. In addition, logical access controls did not adequately protect the system and its data.

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 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 the 2005-2007 biennium, we issued the calendar year 2005 Government Waste Hotline report and the results of seven investigations.

2005-07 Investigations

Lincoln County Communications Agency: Former Director Investigation (No. 2006-03)

March 1, 2006 – The purpose of our investigation was to follow up on allegations regarding inappropriate business practices by the former director of the Lincoln County Communications Agency (LinCom).

Our investigation substantiated the allegations of inappropriate business practices. We found that the former director took more in payroll draws than she was entitled and did not make timely repayments for the payroll draws. We also question approximately \$4,000 in expenses incurred by the former director for which no supporting documentation was available to demonstrate a related business purpose.

Oregon State Landscape Architect Board: Administrator Investigation (No. 2006-13)

April 13, 2006 – The purpose of our investigation was to follow up on an allegation regarding a vacation payout taken by Leslie Clement, the former administrator at the Oregon State Landscape Architect Board, upon her departure.

Our investigation substantiated the allegation regarding a questioned vacation payout. We determined that the former administrator was paid \$9,149 more in vacation payout than she was entitled. Because the follow up on the allegation suggested potential criminal activity, we contacted the Oregon State Police. We conducted a joint investigation of the former administrator's activities at the board. The investigation revealed that, from January 1999 through December 2004, the former administrator misappropriated board funds of approximately \$139,000. In August 2005, she was indicted on multiple counts including official misconduct, theft, and forgery. On April 3, 2006, she was arrested following a guilty plea and is serving 19 months in prison followed by 24 months of post-prison supervision. In addition, she was ordered to pay restitution of \$135,365.27 to the Oregon State Landscape Architect Board.

Oregon Secretary of State's Government Waste Hotline January – December 2005 (No. 2006-17)

July 20, 2006 – The Oregon Secretary of State, through its Audits 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 reports received during the period January 1, 2005, through December 31, 2005.

The division received 435 reports in 2005. The nature of the reports received varied from information requests to information provided that was sufficient to warrant an investigation. The resolution of reports included providing information, referrals, and performing audits or investigations. The number of reports resulting in an audit or investigation totaled eight for 2005. This report summarizes the results of three of the eight investigations. As a result of the investigations, we identified questioned costs of approximately \$147,000 in 2005. The remaining five investigations started in 2005 are still in process. Questioned costs of over \$5.1 million have been identified since the inception of the hotline in 1995. These costs 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.

Oregon Department of Transportation: Office of Project Delivery Investigation

(No. 2006-34) September 5, 2006 – The purpose of our investigation was to follow up on allegations regarding violation of the Oregon Department of Transportation's Conflict of Interest Policy and questionable management decisions relating to contracting practices within the Oregon Department of Transportation's Office of Project Delivery (OPD).

The Oregon Department of Transportation (ODOT) is responsible for overseeing the Oregon Transportation Investment Act (OTIA) III State Bridge Delivery Program, with the objective of managing \$1.3 billion to improve the deteriorating condition of the state's transportation infrastructure. ODOT assigned the management responsibilities of OTIA III to its Office of Project Delivery (OPD). OPD has the authority to initiate, develop, approve, and implement solicitations and contracts necessary to support OTIA III program delivery priorities.

Our investigation at OPD substantiated allegations regarding violation of ODOT's Conflict of Interest Policy and allegations surrounding questionable management decisions relating to a request for proposal. As a result, ODOT is less able to ensure compliance with fair contracting practices. Specifically, we found that an ODOT manager violated ODOT's Conflict of Interest Policy, PER 01-02-02, by not avoiding actions that created the appearance of using one's position for personal gain or private benefit. We found that this manager was employed by the same firm prior and subsequent to being employed at ODOT and that the manager may have given preferential treatment to the firm while working for ODOT. We also found that OPD management did not justify its discretionary action of allowing a request for proposal to go forward despite ODOT procurement managers and legal advice stating that the request included numerous flaws.

Department of Education: Sisters School District Investigation (No. 2006-35) September 15, 2006 – In November of 2004, the Department of Justice informed the Audits Division of an allegation that Sisters School District was over-billing the Oregon Department of Education for State School Fund dollars. The person who made the allegation stated that the district inappropriately claimed private Christian school students as participants in the district's homeschool program. This person also stated that the district was paying parents to tutor their own children. The following year, we began an investigation to determine the validity of this allegation. We limited our review to the 1999-2000 through 2003-2004 school years.

Sisters School District offers educational services for homeschooled students in its area. The district pays for these services with State School Fund (SSF) dollars and local revenue. The majority of state funding the district received for its homeschool program during our audit period was for students educated at Sunrise Christian School (Sunrise).

We substantiated the allegation regarding the district inappropriately claiming and collecting SSF dollars. Specifically, we concluded that the district's homeschool program operated at Sunrise was not a legitimate program for which the district was entitled to SSF. We reached this conclusion for the following reasons:

- The district's homeschool program took place on the premises of Sunrise Christian School. The overwhelming majority of students the homeschool program "tutors" taught were Sunrise students. This is contrary to a 1973 Oregon Court of Appeals decision, which held that programs in which parochial school students are enrolled in public schools and also receive education from public school teachers in a parochial building violate the constitutional prohibition on use of public money to benefit a religious institution.
- The district employed 15 homeschool tutors for the Sunrise site during our audit period. Twelve of these tutors were employed concurrently as teachers by Sunrise Christian School. Moreover, three of the tutors we interviewed stated that the curriculum they used did not change after the district employed them.
- At least 91 percent of the participants in the district's homeschool program at Sunrise were also enrolled as Sunrise Christian students. Further, we found that the district reported Sunrise Christian hours of instruction as homeschool tutoring hours. When we

interviewed a sample of parents of the homeschool students, they told us they were unaware that their children were participating in the homeschool program. Yet, according to district officials, students attend this program at the request of their parents.

As a result of the inappropriate ADM claims the district made during our audit period, the Department of Education distributed \$1.2 million in SSF to the district. Sonrise also benefited from this arrangement. The district paid about \$357,000 in tutor salaries and benefits, which offset some of Sonrise's personnel costs. We also found that Sisters School District used approximately \$51,000, which included SSF, to pay nine parents to tutor their own children at home. We question whether this practice is appropriate.

Oregon Department of Transportation: Construction Quality Assurance Investigation (Management Letter No. 730-2006-12-01) December 15, 2006 – The Audits Division received an allegation in May 2006 that a department employee in the Quality Assurance Unit did not follow appropriate procedures regarding the calibration of a nuclear density gauge. The initial purpose of our investigation was to determine the validity of the allegation. As the department had already conducted a review regarding the specific calibration complaint, however, we focused our investigation on the department's review process for addressing the complaint.

We determined the department conducted a thorough review and took appropriate and sufficient steps to address the complaint. During the course of our work, we received and investigated allegations regarding the quality of several road construction projects. As a result, we identified and communicated some control issues to department management. These issues appeared to be isolated incidents that had minimal impact on the overall quality of the road construction projects.

Oregon Department of Transportation: Investigation of Contracting Practices Related to Oregon Bridge Delivery Partner (Management Letter No. 730-2007-03-01) March 21, 2007 – The Audits Division received allegations in January 2005 that Oregon Bridge Delivery Partners (Bridge Partners) had engaged in questionable billing and contract practices with the department and had made inappropriate contract expenditures. The purpose of our investigation was to determine the validity of the allegations.

We determined the allegations relating to questionable billing and inappropriate contract expenditures were not substantiated. Although Bridge Partners may have incurred expenditures for items such as parties and furniture, we could not verify that they billed and received reimbursement from the department for those expenditures. During our investigation, we identified opportunities for the department to improve its contract management procedures to properly oversee payments made to Bridge Partners.

Oregon Department of Transportation: Loss of Funds – Coos Bay Sign Crew (No. 2007-11) April 13, 2007 – The purposes of this audit were to assist the Oregon State Police in quantifying a loss of funds at the Oregon Department of Transportation and to evaluate the department's purchasing and inventory controls intended to prevent or detect fraudulent transactions.

In April 2005, the Oregon State Police (OSP) asked us to quantify the loss of funds the Oregon Department of Transportation (department) sustained as a result of potentially fraudulent billings initiated by Dick Ekblad, a partial owner of Oregon Pacific Company and Edward Goodrich, a former sign crew employee at the department's Coos Bay location. From August 2000 through September 2005, the department experienced losses totaling approximately \$47,000 in product costs and freight charges from billings that Mr. Ekblad submitted to the department for items it never received. Mr. Goodrich used his purchasing

authority to approve most of those billings. Mr. Goodrich resigned from state service on April 25, 2006.

On February 2, 2007, the two men pled guilty to one count of aggravated theft in the first degree and were sentenced in Coos County Circuit Court to 90 days in jail and 36 months of probation. In addition, they were ordered to pay the department approximately \$56,000 in restitution. That amount consisted of \$47,000 in fraudulent billings, reduced by approximately \$6,000 of recovered property, and a \$15,000 compensatory fine.

Although internal controls cannot always prevent fraud from occurring, especially when there is collusion, the risk of losses from fraud can be mitigated if controls are in place and working. The department, however, had not implemented some key controls that could have prevented or detected the activities that led to the losses. Specifically, the department had not separated responsibilities for initiating, receiving, and approving purchases and controlling inventory. In addition to the \$47,000 loss, the department experienced losses estimated at approximately \$42,000 because state purchasing rules were not enforced. The department did not enforce compliance with state purchasing rules that require agencies to obtain competitive pricing when purchasing goods.

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, we issued 138 audit reports, reviews, investigations, and management letters that identified more than \$23 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.