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State of Oregon

Measure 66 Funding: Financial Integrity, Effectiveness and Performance for the 2005-2007 Biennium

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Summary

PURPOSE

This audit had two purposes related to Measure 66 funding: a review of effectiveness and performance at Oregon Parks and Recreation Department (OPRD) and Oregon Department of Fish and Wildlife (ODFW) and a review of financial integrity at all six state agencies that received Measure 66 funds during the 2005-2007 biennium.

The purposes of our effectiveness and performance review were as follows:

- determine whether agencies receiving Measure 66 funding had appropriate mechanisms to report on their use of Measure 66 funds;
- determine whether agencies that reported activity supported by Measure 66 funding provided accurate information; and
- determine whether agencies had established and followed policies that promoted prudent stewardship of Measure 66 funds.

For OPRD, we reviewed the Property and Resource Management Division, the Local Government Grants Program and the facilities maintenance portion of the Facility Investment Program. For ODFW, we focused on the Fish Screening and Passage, and the Western Oregon Stream Restoration (WOSRP) programs.

The purposes of our financial integrity review were as follows:

- determine whether agencies that received Measure 66 funds from the Restoration and Protection Subaccount spent those funds in compliance with constitutional restrictions and appropriately recorded those transactions;
- determine whether all interest earned on money in the Restoration and Protection Subaccount was deposited in the Restoration and Protection Research Fund;
- determine whether the Measure 66 funds agencies spent from the Restoration and Protection Subaccount and the Restoration and Protection Research Fund together met the requirement that at least 65 percent be spent on capital expenditures; and
- verify that OPRD correctly classified certain operational expenditures that could have affected compliance with legislative limitations for administrative costs and confirm that expenditures for the State Fair were consistent with constitutional requirements.

Summary

BACKGROUND

Starting in July 1999, the Oregon Constitution dedicated 15 percent of net State Lottery proceeds to certain activities. Of those dedicated proceeds, 50 percent is deposited in the Parks Subaccount, which OPRD uses to finance the protection, repair, operation, creation and development of state parks, ocean shore and public beach access areas, historic sites and recreation areas. The remaining 50 percent is deposited in the Restoration and Protection Subaccount for the purpose of protecting native salmonid population, watersheds, fish and wildlife habitat, and water quality in Oregon. At least 65 percent of expenditures from this subaccount must be capital in nature. Agencies that received funds from this subaccount are: ODFW, Oregon Department of Agriculture (ODA), Oregon State Police (OSP), Oregon Department of Environmental Quality (DEQ), and the Oregon Watershed Enhancement Board (OWEB). Statutes designate OWEB as the agency responsible for administering Measure 66 funds distributed through the Restoration and Protection Subaccount.

RESULTS IN BRIEF

Oregon Parks and Recreation Department

OPRD Could Improve Reporting Accuracy for Facilities Maintenance Backlog

We determined that during the 2005-2007 biennium OPRD had appropriate mechanisms to report on the agency's use of Measure 66 funds, reported accurate information for the Property and Resource Management Division and the Local Government Grants Program, established and followed policies that promoted prudent stewardship of Measure 66 funds for the three programs we reviewed, and appropriately classified expenditures. However, we also found that OPRD could improve the accuracy and disclosure of its reporting related to reducing its facilities maintenance backlog. In order to determine whether State Fair expenditures of Measure 66 funds were consistent with constitutional restrictions, we requested advice from the Oregon Attorney General, which we have yet to receive.

Oregon Department of Fish and Wildlife

ODFW Could Improve Reporting Accuracy and Expenditure Classification

We determined that during the 2005-2007 biennium ODFW had appropriate mechanisms to report on the agency's use of Measure 66 funds, had and followed policies that promoted prudent stewardship of Measure 66 funds, expended its Measure 66 funds substantially in compliance with the state constitution and properly recorded those expenditures. However, we also found that ODFW could improve the accuracy of its reporting for the Fish Screening and Passage and WOSRP programs. In addition, ODFW did not always classify capital expenditures consistently with governing guidance, although all expenditures were for uses allowed by Measure 66.

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Oregon Department of Agriculture

ODA Shows Classification Improvement

ODA expended its Measure 66 funds for the 2005-2007 biennium substantially in compliance with the state constitution and properly recorded those expenditures. ODA's expenditure classification, while not completely accurate, showed marked improvement compared to our last audit.

Oregon State Police Department of Environmental Quality Oregon Watershed Enhancement Board

OSP, DEQ and OWEB in Compliance

OSP, DEQ and OWEB expended their Measure 66 funds for the 2005-2007 biennium substantially in compliance with the state constitution and properly recorded those expenditures.

Overall Financial Integrity for the Restoration and Protection Subaccount

Interest Properly Deposited in Research Fund

We reviewed account statements from the Oregon Treasury Department and determined that during the 2005-2007 biennium interest earned on money in the Restoration and Protection Subaccount was properly deposited to the Restoration and Protection Research Fund.

State Falling Behind in Meeting Capital Expenditure Threshold

Through the end of the 2005-2007 biennium, state agencies had expended or had remaining unspent expenditure authority of almost \$227.8 million of Measure 66 funds from the Restoration and Protection Subaccount and the Restoration and Protection Research Fund. Capital expenditures represented about 64.3 percent of that amount. To comply with the constitutional requirement that at least 65 percent be spent on capital expenditures, the state would need to spend almost an additional \$4.3 million on capital expenditures over and above the remaining unspent expenditure authority.

RECOMMENDATIONS

We recommend **OPRD** take the following actions:

- develop, document and follow a consistent process for accurately reporting progress toward reducing the parks maintenance backlog; and

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- improve key performance measure disclosure to present a more complete picture of progress achieved.

We recommend **ODFW** take the following actions:

- develop and document a consistent methodology for reporting its progress in meeting its key performance measure for reducing unscreened priority water diversions;
- determine whether it needs to apply this methodology to past key performance measure reporting and develop an updated report, if appropriate;
- assess records management controls and strengthen them as needed;
- determine the appropriate length of time for retaining documentation necessary to support reported performance for WOSRP, modify the existing retention policy to address that need, provide training on how staff should implement this policy, and provide oversight to ensure staff retains proper documentation and such documentation is accessible; and
- ensure that costs charged as Measure 66 capital expenditures demonstrably meet the definition of capital expenditure as defined in statute and Department of Justice guidance.

We recommend ODA continue efforts to ensure that all costs classified as Measure 66 capital expenditures demonstrably meet the definition of capital expenditure as defined in statute and Department of Justice guidance.

We recommend OWEB take the following actions:

- work with management at ODFW and ODA to ensure they take timely corrective action regarding classifying Measure 66 expenditures as capital; and
- continue monitoring to ensure that at least 65 percent of the expenditures from the Restoration and Protection Subaccount and the Restoration and Protection Research Fund are capital expenditures. If the gap between actual expenditures and the constitutional restriction is not eliminated, OWEB should consider approaching the Governor and Oregon State Legislature for additional budgetary action.

AGENCIES' RESPONSES

The agencies generally and partially agree with the recommendations. Their complete response can be found within each agency's chapter following the recommendations made.

Introduction

Ballot Measure 66 amended the Oregon Constitution to dedicate a portion of Oregon State Lottery proceeds for parks, beaches and historic sites, as well as for habitat protection and watershed restoration. In 2014, voters will decide whether to continue dedicating funds for these purposes.

Among the provisions of the measure was the requirement that any state agency receiving this money secure an independent audit to measure the financial integrity, effectiveness and performance of the agency. This is the fourth audit report the Oregon Audits Division has issued about the use of Measure 66 funds. It had two purposes related to Measure 66 funding: a review of effectiveness and performance at two of the six state agencies that received Measure 66 funds during the 2005-2007 biennium and a review of the financial integrity of Measure 66 expenditures at all six agencies.

Background

Effective July 1, 1999, Measure 66 dedicated 15 percent of Oregon's net lottery proceeds to a parks and natural resources fund. Fifty percent of this amount is allocated to the Oregon Parks and Recreation Department (OPRD) through the Parks Subaccount to finance the protection, repair, operation, and creation of state parks, ocean shore and public beach access areas, historic sites and recreation areas. The remaining 50 percent is deposited in the Restoration and Protection Subaccount and is devoted to the restoration and protection of native salmonid populations, watersheds, fish and wildlife habitats and water quality in Oregon.

A further constitutional restriction on the Restoration and Protection Subaccount is that at least 65 percent of the money must be used for capital expenditures. *Oregon Revised Statutes* (ORS) that govern the use of the subaccount describe capital expenditures as:

- A. personal property of a nonexpendable nature, including items that are not consumed in the normal course of operations, can normally be used more than once, have a useful life of more than two years and are for use in the enforcement of fish and wildlife and habitat protection laws and regulations; or
- B. projects that restore, enhance or protect fish and wildlife habitat, watershed functions, native salmonid populations or water quality.¹

¹ See ORS 541.351(4).

Introduction and Background

The six agencies that received Measure 66 funds during the 2005-2007 biennium were the OPRD, Oregon Department of Fish and Wildlife (ODFW), Oregon Department of Agriculture (ODA), Oregon State Police (OSP), Oregon Department of Environmental Quality (DEQ), and the Oregon Watershed Enhancement Board (OWEB). Oregon statutes designate OWEB as the agency responsible for administering Measure 66 funds distributed through the Restoration and Protection Subaccount. The Oregon Legislature allocates funds from the subaccount, while OWEB transfers the amounts to agencies, establishes spending agreements and monitors expenditures.

Oregon Parks and Recreation Department

Agency Background

The Oregon Parks and Recreation Department (OPRD) is the only state agency that receives funds from the Parks Subaccount. During the 2005-2007 biennium, OPRD spent about \$87.5 million in Measure 66 funds, which supported the following programs:

- Property and Resource Management Division: \$7.4 million;
- Local Government Grants Program: \$6.6 million; and
- Facility Investment Program: \$30 million.

The remaining funds supported the Heritage Conservation Program, covered the department's administrative and operational functions, and funded the transition of the Oregon State Fair, which was transferred to OPRD in 2005.

For the purpose of this audit, we evaluated the effectiveness and performance of the following programs:

The **Property and Resources Management Division** provides direction and management for all OPRD real property functions. Property acquisitions must receive Commission approval and should address the state's objectives for acquiring scenic, natural, cultural, historical and/or recreational properties. During the 2005-2007 biennium, OPRD purchased 16 properties for about \$7 million.

The **Local Government Grants Program** provides local governments with financial assistance for acquisition, development, and rehabilitation projects for community parks and public outdoor recreation areas and facilities. Grants match between 50 and 80 percent of project costs, depending on the population of the entity applying for a grant. An advisory board selects grant recipients and sets amounts, with final approval provided by the Oregon Parks and Recreation Commission (Parks Commission), which directs OPRD's operations.

The **Facilities Investment Program (FIP)** provides engineering design, survey, and construction oversight for OPRD development projects. One of the program's highest priorities is reducing the facilities maintenance backlog, which is comprised of deferred maintenance projects reported to have totaled \$120 million in 1997 and \$97 million in 1999. The OPRD's efforts to reduce the facilities maintenance backlog constituted the focus of the effectiveness and performance part of our audit.

Effectiveness and Performance Audit Results

The purpose of the effectiveness and performance part of our audit of OPRD was to determine whether OPRD did the following:

- had appropriate mechanisms to report on its use of Measure 66 funds;
- reported accurate information on the use of Measure 66 funds for the Property and Resource Management Division, the Local Government Grants Program and the facilities maintenance portion of the Facility Investment Program; and
- had established and followed policies that promoted prudent stewardship of Measure 66 funds used for the Property and Resource Management Division, the Local Government Grants Program and the facilities maintenance portion of the Facility Investment Program.

OPRD Has Sufficient Mechanisms to Report Measure 66 Uses

OPRD reports performance data to the Legislature, the Governor, the Parks Commission, and the public through various reporting mechanisms. For example, we noted that during the 2005-2007 biennium OPRD made frequent presentations to the Parks Commission, prepared updates for the Legislature's Ways and Means Subcommittee on Natural Resources, and made program updates available on OPRD's website. In addition to these reports, OPRD reported yearly on its progress toward achieving targets set for key performance measures approved by the Legislature. Key performance measures are high-level, outcome-oriented performance measures state agencies use to report externally to the legislature and interested citizens. These measures communicate in quantitative terms how well the agency is achieving its mission and goals.

We reviewed reporting mechanisms for the Property and Resource Management Division, the Local Government Grants Program and the facilities maintenance portion of the Facility Investment Program. We found that the department made detailed information available to its stakeholders. This included reporting specific progress toward a goal, such as reducing the facilities maintenance backlog or increasing the number of acres of park lands available for every 1,000 Oregonians. It also included program outputs, such as reporting the number of properties acquired and total grant dollars awarded to local governments.

Given the specific level of detail OPRD made available in official reports and the various reporting mechanisms it employed during the 2005-2007 biennium, we concluded that the department had appropriate mechanisms to report on its use of Measure 66 funds.

Oregon Parks and Recreation Department

Accuracy of Reporting Could Be Improved For One of Three Measures

To identify uses of Measure 66 funding specific to the three programs we covered, we reviewed budget narratives and presentations provided to the Legislature, minutes for Parks Commission meetings, and updates distributed to local stakeholders. We found that the department's key performance measures for these programs sufficiently capture OPRD's progress achieved with Measure 66 funds. Therefore, we focused our accuracy audit work on these measures as detailed below.

Accurate Information Reported for Property Acquisition Goals

The Property and Resource Management Division reports on *park lands and waters OPRD acquired as a percentage of total goals*. Implemented in 2006, the measure documents OPRD's progress toward meeting its long-term goal of having 35 park acres per 1,000 Oregonians.

For fiscal year 2007, the only year of the 2005-2007 biennium for which data were available, OPRD reported achieving 75 percent of its long-term goal, or approximately 26 acres per 1,000 Oregonians. We reviewed the source documentation for the department's reported progress and found the reported percentage to be accurate.

Accurate Information Reported for Local Government Grants Program

The 2005-2007 progress reporting for the Local Government Grants Program is captured in the key performance measure *percentage of grants executed within 720 days*. We did not review the accuracy of this key performance measure because, according to OPRD, it was not approved until November 2006, and the Local Government Grants Program did not have any grants scheduled to close during fiscal year 2007. Instead, we reviewed the accuracy of information OPRD reported to the Parks Commission.

During the 2005-2007 biennium, OPRD reported that the grants advisory board approved 61 applications totaling about \$8 million. We compared information from the advisory board meetings to the documents presented to the Parks Commission and determined that OPRD accurately reported the advisory board's grant funding recommendations to the Parks Commission.

Reduction of Maintenance Backlog Reporting Not Complete

The Facilities Investment Program reports on *the percent reduction in facilities backlog since 1999*. At the end of the 2005-2007 biennium, OPRD reported it had achieved a 63 percent reduction of its backlog, which was estimated at \$120 million in 1997. However, OPRD management could not support its reported progress because OPRD did not fully track backlog changes over time. For example, new projects were added to the list, while others were reclassified, combined or removed. The OPRD did not disclose that some of its reported

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progress was due to reclassifying some projects, which may lead some stakeholders to believe the department achieved more progress during the biennium than it actually did.

Furthermore, we found the department did not establish and document consistent criteria for what constitutes a backlog project, nor did it control access to the database where such projects were input and tracked, which resulted in duplicate entries. Finally, the department could not provide a verifiable starting point for the 2005-2007 backlog level.

OPRD management is responsible for providing reliable and appropriate information that demonstrates accountability for resources used to fulfill program goals and shows the results of these programs. Without accurate, consistent, and fully transparent information, management and policymakers may not have a solid basis for making decisions and taking action regarding the program.

We recommend the department take the following actions:

- develop, document and follow a consistent process for accurately reporting progress toward reducing the parks maintenance backlog; and
- improve key performance measure disclosure to present a full picture of progress achieved.

Agency's Response:

OPRD agrees with the recommendations. The department has instituted improved management processes with respect to the FIP (Facilities Investment Program) to better track and disclose the progress of reducing the departments FIP backlog list.

OPRD has completed the initial development and implementation of an electronic tracking system (HUB). This system will be used to document, consistently track and disclose all FIP backlog projects. Through this process all duplicative entries have been eliminated. The newly implemented process will track and monitor backlog projects through their life span and provide the basis for future reporting. Regardless of funding source, the projects will be tracked and reported consistently within the FIP backlog process. This will provide consistency in reporting as to status, completion, actual costs and remaining projects to be completed. System access has been limited to authorized users with built in ability to track activity and maintain an adequate audit trail for the entire project life span. Once the identified backlog projects have been entered in the system, no future additional backlog projects will be added. All future identified maintenance projects will be categorized "deferred" maintenance projects.

We would like to commend the audit team for the professional and collaborative approach taken to conduct this audit. The recommendations will be instrumental in enhancing processes for tracking and disclosing the departments FIP progress.

Oregon Parks and Recreation Department

OPRD Demonstrated Prudent Stewardship of Measure 66 Funds

We reviewed information for the Land Acquisition and Local Government Grants programs and the facilities maintenance section of the Facility Investment Program and determined that, in general, OPRD had established and followed policies that promoted prudent stewardship of Measure 66 funds for these programs.

The Property and Resource Management Division Demonstrated Prudent Stewardship of Measure 66 Funds

The Property and Resource Management Division uses Measure 66 funds to acquire properties that preserve Oregon's natural beauty or heritage, and enhance recreational opportunities for Oregonians. We reviewed all 16 property acquisitions made during the 2005-2007 biennium to verify that they met agency acquisition goals, were approved by OPRD management and the Parks Commission, were backed by appraisals and reviews consistent with OPRD policy, were purchased at market value, were approved by the Parks Commission, and were transferred to the state's ownership.

We did not identify any significant process weaknesses in the above areas and therefore concluded that OPRD generally followed policies that promoted prudent stewardship of Measure 66 funds allocated for acquiring real property during the 2005-2007 biennium.

The Local Government Grants Program Demonstrated Prudent Stewardship of Measure 66 Funds

The Local Government Grants Program provides Measure 66 funds to local governments for recreational projects. The grant process includes ranking projects and awarding funds to the highest ranked applicants. Prudent stewardship for this program entails following the established process for awarding grants and only reimbursing allowable project costs. We reviewed documentation related to 26 grants awarded during the 2005-2007 biennium to ensure that OPRD followed the established process. We did not note any significant weaknesses and thus concluded that OPRD generally followed policies that promoted prudent stewardship of Measure 66 funds devoted to the grant program.

The Facilities Investment Program Demonstrated Prudent Stewardship of Measure 66 Funds Used for Maintenance Backlog Projects

The Facilities Investment Program uses Measure 66 funds to complete backlog projects. Prudent stewardship for this program entails following the established processes for approving projects and making payments.

We reviewed five projects that received Measure 66 funds during the 2005-2007 biennium to determine whether payments were appropriately supported and whether OPRD performed reviews consistent with department processes. For the five projects we reviewed, we determined that in general, Measure 66 payments were appropriately supported and projects

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were reviewed prior to bid and before final payment. Moreover, in one instance a contractor over-billed OPRD by almost \$100,000. The department's review process identified this over-billing and corrected it. Therefore, we concluded that the established processes for approving projects and making payments promoted prudent stewardship of Measure 66 funds.

Financial Integrity Audit Results

The purposes of the financial integrity portion of our audit of OPRD were to verify that OPRD correctly classified certain operational expenditures that could have affected compliance with legislative administrative cost limitations and to confirm that expenditures for the State Fair were consistent with constitutional requirements.

OPRD Classification Accurate

We tested 62 expenditures OPRD classified as operational that could have been administrative expenditures. Based on documentation the department provided, we concluded that OPRD correctly classified all Measure 66 expenditures we reviewed. However, we did identify a potential minor internal control weakness dealing with retaining supporting documentation, which we verbally communicated to OPRD management.

Legal Advice Sought to Determine Appropriateness of Some Expenditures

In 2005, the Oregon Legislature transferred responsibility for the Oregon State Fair and Exposition Center (State Fair) to OPRD effective January 2006. Furthermore, the legislature authorized OPRD to expend more than \$8.3 million in Measure 66 funds during the 2005-2007 biennium for costs associated with the State Fair. The authorization included more than \$4.2 million for debt service on bonds issued in prior biennia to pay for facility capital costs and almost \$4.1 million for current State Fair operations. Actual State Fair expenditures of Measure 66 funds during the 2005-2007 biennium totaled more than \$8.2 million. Because these expenditures do not clearly fall within the allowed uses of Measure 66 described in the Oregon Constitution, we requested advice from the Oregon Attorney General regarding the appropriateness of using Measure 66 funds for the State Fair. As of this report's publication date, we had not yet received final advice on this matter. When we receive it, we will notify OPRD and take additional action as appropriate.

Oregon Department of Fish and Wildlife

Agency Background

The Oregon Department of Fish and Wildlife (ODFW) spent \$6 million in Measure 66 funds during the 2005-2007 biennium for the following programs:

- Fish Screening and Passage Program: about \$3.6 million,
- Western Oregon Stream Restoration Program (WOSRP): almost \$1.4 million, and
- Conservation and Recovery Program: almost \$1.0 million.

The **Fish Screening and Passage Program** provides financial and technical assistance for designing and installing fish screens and passage improvements. Fish screens keep fish from swimming into irrigation diversions. The passage improvements are fish ladders that facilitate fish's natural migration. Measure 66 funds support the design and actual construction of screens and passage improvements, as well as personnel costs associated with those efforts.

The **Western Oregon Stream Restoration Program (WOSRP)** provides direct technical support to watershed councils, Soil and Water Conservation Districts and private landowners in Western Oregon for the purpose of restoring and enhancing Oregon's salmonid habitats. The program reports that, since 1995, it completed more than 1,139 projects encompassing nearly 1,046 miles of habitat, which resulted in improved or expanded salmonid habitat.

The **Conservation and Recovery Program** collects and analyzes data to study the successes and failures of the Fish Screening and Passage Program and WOSRP, and coordinates the development of conservation plans for native fish. Measure 66 funds support personnel costs for the researchers who work for the program and program operating expenses.

Measure 66 funding for this program has varied by biennium. For example, the program did not receive any Measure 66 funding in the 2003-2005 biennium, but received \$1 million for operating expenditures incurred during the 2005-2007 biennium.

Effectiveness and Performance Audit Results

The purpose of the effectiveness and performance portion of our audit of ODFW was to determine the following:

- whether ODFW has appropriate mechanisms to report on its use of Measure 66 funds;
- whether the information ODFW reported about its use of Measure 66 funds for the Fish Screening and Passage Program and WOSRP was accurate; and

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- whether ODFW had established and followed policies that promoted prudent stewardship of Measure 66 funds used for the Fish Screening and Passage Program, and WOSRP.

ODFW Has Sufficient Mechanisms to Report Measure 66 Uses

The department reports to the Legislature, the Governor, OWEB, special interest groups and the public through various reporting mechanisms. For example, we noted that for the 2005-2007 biennium ODFW provided a special report about fish screens to the Legislature, provided specific reports to OWEB, and reported progress toward meeting its legislatively approved key performance measures to all stakeholders. The key performance measures focus on the most relevant outcomes and communicate in quantitative terms the department's progress in achieving its mission and goals.

We reviewed the reporting mechanisms for the Fish Screens and Passage Program and WOSRP and found that the department made detailed information available to its stakeholders. This information included specific progress toward a goal, such as reducing the number of unscreened priority diversions, as well as program outputs, such as the number of restoration projects and miles of rivers and habitat improved.

Given the specific level of detail available in official reports and the various reporting mechanisms ODFW employed during the 2005-2007 biennium, we concluded that the department had appropriate mechanisms to report on its use of Measure 66 funds.

We also reviewed reporting for the Conservation and Recovery program, which received Measure 66 funds for the first time during the 2005-2007 biennium. The reporting for this program is not outcome oriented and focuses on program description and expenditure details, such as how much the program spent on personnel services, utilities, and contracts. Given that Measure 66 is not an ongoing source of funding for this program, and that the program only received operations funds, the reporting mechanisms we observed appeared appropriate. However, if Measure 66 becomes a consistent source of funds for this or other ODFW programs, the agency should consider developing new means to identify and report detailed information about the impact of Measure 66 funds on these programs.

Accuracy of Reporting Could Be Improved

In order to determine the accuracy of information ODFW reported about its use of Measure 66 funds for the Fish Screening and Passage Program, we reviewed and compared data reported by its 2005-2007 Report to the Legislature, the report to OWEB for July 2005 - February 2008 and the program's key performance measure results for 2006. Similarly, for WOSRP we reviewed the report to OWEB for July 2005 - February 2008.

Oregon Department of Fish and Wildlife

Key Performance Measure for Fish Screening and Passage Program is Not Fully Supported

In the 2005-2007 Report to the Legislature, the Fish Screen and Passage Program reported that 94 screens were installed between July 2005 and December 2006. We reviewed supporting documentation for the screens reported and determined the report information to be accurate. In a report to OWEB, the program reported 90 fish screens installed for the same time period. Given the results of our accuracy work for the legislative report and because we considered this difference of four projects to be immaterial for our purposes, we concluded that the numbers in these two reports were generally accurate.

However, we question the accuracy of the information reported for the key performance measure *reduction of unscreened priority water diversions*, which tracks ODFW's progress toward reducing an estimated 3,000 unscreened water diversions. ODFW reported 2,287 diversions remained unscreened as of December 31, 2006, which equates to 95 water diversions screened during calendar year 2006. This number is significantly higher than the 65-68 installed fish screens reported to the Legislature and to OWEB for the 12-month period ending December 31, 2006. Moreover, ODFW management could not provide a list of the specific projects included in the key performance progress it reported for calendar year 2006 or the methodology it employed.

ODFW management is responsible for providing reliable information that demonstrates accountability for resources used to fulfill program goals and shows the results of these programs. In addition, management needs to identify and employ a consistent methodology to report its progress, so that program progress can be measured over time. Without reliable information, stakeholders and decision makers may not be convinced of the department's progress and may lack a solid basis for making decisions and taking action regarding the program.

We recommend the department take the following actions:

- develop and document a consistent methodology for reporting its progress in meeting its key performance measure for reducing unscreened priority water diversions;
- determine whether it needs to apply this methodology to past key performance measure reporting and develop an updated report, if appropriate; and
- assess records management controls and strengthen them as needed.

Agency's Response:

The Department generally agrees with the recommendations.

The Department will develop and document a consistent methodology for reporting progress it reports for its key performance measure for reducing unscreened priority water diversions

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by June 30, 2009. The Department will apply this methodology for reporting calendar year 2008 and forward.

With regard to records management controls, the Department has drafted an Information Asset Classification Plan. The scope of this plan enables the Department to meet provisions of DAS Statewide Policy 107-004-050 (Information Asset Classification), including identification, classification and protection of all information assets by June 30, 2010.

WOSRP Progress is Not Supported

The WOSRP submitted a project completion report to OWEB for the 2005-2007 biennium. The report included data on the number of projects completed and miles affected for instream, riparian, and passage projects.² However, program staff could not locate sufficient supporting documentation that would allow us to substantiate the accuracy of the information reported for calendar year 2006.

We noted that staff lacked an understanding of general records retention best practices. For example, when preparing information for the OWEB report, staff overwrote data in the main summary table without saving the existing file for historical purposes. In addition, staff did not retain the source documentation for the summary table, even though document retention rules for project plans and performance supported by grants require that documentation be retained five years after the final or annual reports are accepted.³ Given that ODFW receives Measure 66 funds as a grant from OWEB, we expected the department to be able to produce progress records for the 2005-2007 biennium. Furthermore, because the project completion report ODFW provided to OWEB included projects completed on an annual basis since 1995, management may want to consider whether a five-year retention period for completed project data is long enough to meet its reporting needs.

ODFW management is responsible for providing reliable information that demonstrates program results and accountability for resources used to fulfill program goals. This information is important for stakeholders and those who make decisions and take action regarding the program.

We recommend the department determine the appropriate length of time for retaining documentation necessary to support reported performance for WOSRP, modify the existing

² Instream projects add structures, such as wood or boulders, to create pools and collect gravel for habitat improvement. Riparian projects add fencing around streams to protect riparian areas and promote multiple species development including fish, birds and other wildlife. Fish passage projects involve the removal of small dams or culverts that hamper fish movement.

³ OAR 166-300-0025 Financial Records (24) Grant Records.

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retention policy to address that need, provide training on how staff should implement this policy, and provide oversight to ensure staff retains proper documentation and such documentation is accessible.

Agency's Response:

The Department generally agrees with the recommendation.

Effective immediately, the Department will retain supporting documentation for five years after the final or annual reports are accepted. This will meet Secretary of State Archives Division retention schedules detailed in Oregon Administrative Rule 166-300-0025 Financial Records (24) Grant Records.

Oversight of retention and accessibility will also be handled through the implementation of the Department's Information Asset Classification Plan referenced above.

To ensure that WOSRP staff retains proper documentation and such documentation is accessible and clearly identifies program accomplishments, the following steps are being implemented immediately.

- A standard field data form is being developed to ensure that all pertinent facets of a project are accurately recorded in a consistent manner among all program field staff;*
- Field data form will be saved both in an electronic and hard copy format and filed at the respective ODFW field office; and*
- Copies (electronic and hard copy) of field data forms will be submitted to the program coordinator for compilation to meet program reporting requirements. A reference file will be created for each project year and filed with an electronic lock so the document can not be modified.*

ODFW Demonstrated Prudent Stewardship of Measure 66 Funds

We reviewed information for the Fish Screening and Passage Program and WOSRP and determined that, in general, the programs followed policies that promoted prudent stewardship of Measure 66 funds.

The Fish Screening and Passage Program Demonstrated Prudent Stewardship of Measure 66 Funds

The Fish Screening and Passage Program used Measure 66 funding to support program employees who work in the field and managers who oversee the program. The program provides grants that support about 60 percent of the costs related to screening water diversions. Prudent stewardship for this program entails following the established process for awarding grants and prioritizing projects so that funds are first allocated to projects that have

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the greatest impact on protecting native fish. We reviewed supporting documentation for the screens reported in the 2005-2007 Report to the Legislature and determined that the program followed the established process for approving grants.

In addition, we found the program has implemented a prioritization method that scores each application based on several criteria, such as basin, diversion size, species and count of native fish present. However, the priority points have not been used significantly to rank projects because the program accepts applications on a rolling basis and so far has been able to adequately match resources with incoming requests. Furthermore, field staff engages in some pre-screening activities that generally results in only higher-priority grant applications advancing through the approval process. Although program management rarely receives applications with low priority points, during the 2005-2007 biennium, it did receive several and demonstrated prudent stewardship of Measure 66 funds by not funding them.

During the 2005-2007 biennium, ODFW set aside \$700,000 of Measure 66 funds for outside projects. Outside projects are usually undertaken by larger applicants, such as local governments and large businesses that have the ability to construct projects on their own. ODFW helps fund the projects, approves or completes the design and inspects the final work. For these projects, the department employed a more traditional application process, as opposed to the rolling application process it uses for in-house projects. Applicants submitted required materials and a committee used established criteria to score the projects. Projects were then awarded Measure 66 funds based on those scores. After considering these processes, we concluded that ODFW generally had and followed policies that promoted prudent stewardship of applications received for both in-house and external projects.

WOSRP Demonstrated Prudent Stewardship of Measure 66 Funds

WOSRP uses Measure 66 funds to support seven field biologists, four seasonal employees and program management. We defined prudent stewardship for this program to be ensuring that positions funded are an appropriate use of Measure 66 funds and implementing internal controls to ensure time charged for these positions is accurate and appropriate. Accordingly, we reviewed position descriptions for three employees and found the job responsibilities listed on the position descriptions to be consistent with allowed uses of Measure 66 funds. We also examined a sample of employee timesheets and determined that internal controls provided reasonable assurance that time charged was accurate and related to appropriate Measure 66 activities.

Based on this work, we concluded that WOSRP showed prudent stewardship of Measure 66 funds.

Financial Integrity Audit Results

The purpose of the financial integrity section of our audit of ODFW was to determine whether the department spent Measure 66 funds in compliance with constitutional restrictions and appropriately recorded those expenditures.

ODFW Spending in Compliance with Measure 66 Restrictions

Based on documentation ODFW provided, we concluded that the department expended its Measure 66 funds for the 2005-2007 biennium substantially in compliance with the state constitution. We also concluded that, in general, the department appropriately recorded those expenditures, which totaled \$5.7 million. However, as noted below, classification of expenditures as capital was not always consistent with governing guidance, although all expenditures were for uses allowed by Measure 66.

Expenditure Classification Still Needs Improvement

Based on ODFW documentation, we found that the department classified about \$576,000 in costs during the 2005-2007 biennium as capital expenditures, even though the transactions did not demonstrably meet the definition of capital expenditure outlined in statute or in guidance provided by the Department of Justice. Although the dollar value of misclassified expenditures was lower than the misclassified amount we identified from the prior biennium, more than 15 percent of the expenditures ODFW classified as capital for the 2005-2007 biennium did not meet the capital expenditure definition.

If ODFW continues to misclassify expenditures, it may impair the state's ability to comply with the constitutional requirement that at least 65 percent of Measure 66 funds allocated to the Restoration and Protection Subaccount be used for capital expenditures.

We recommend ODFW ensure that costs charged as Measure 66 capital expenditures demonstrably meet the definition of capital expenditure as defined in statute and guidance provided by the Department of Justice.

We communicated our financial integrity findings and recommendations, along with one other potential internal control issue, to ODFW in management letter No. 635-2008-07-01, dated July 11, 2008.

Agency's Response:

The Department generally agrees with the recommendation. Retroactive to July 1, 2005, the Department will appropriately allocate capital expenditures to the affected cost code of the affected project rather than collect such costs in a generic cost code. Reclassification of such expenditures through June 30, 2007, will be completed by January 31, 2009. Reclassification of expenditures since July 1, 2007, will be completed by July 31, 2009.

Oregon Department of Agriculture

Agency Background

The Oregon Department of Agriculture (ODA) uses Measure 66 funds to support the operating costs of ODA's Natural Resource and Plant divisions.

The Natural Resource Division works with the existing 45 Soil and Water Conservation Districts to deliver conservation programs for water quality improvement and watershed management. In addition, ODA works with landowners to develop and implement agricultural water quality management plans to meet state water quality standards in basins where agricultural non-point source pollution is a major factor. In conjunction with this effort, the Natural Resources Division also works with Confined Animal Feeding operators to improve their level of compliance with water quality regulations.

The Plant Division focuses on detecting and eradicating exotic insect pests, weeds, and plant diseases, as well as inspecting and certifying nursery stock, Christmas trees, and seed crops for pests and diseases.

Financial Integrity Audit Results

The purpose of the financial integrity section of our audit of ODA was to determine whether the department spent Measure 66 funds in compliance with constitutional restrictions and appropriately recorded those expenditures.

ODA Spending in Compliance with Measure 66 Restrictions

Based on documentation the department provided, we concluded that the department expended its Measure 66 funds for the 2005-2007 biennium, totaling almost \$11 million, substantially in compliance with Measure 66 restrictions. We also concluded that, in general, the department appropriately recorded those expenditures. However, as noted below, ODA classification of expenditures as capital was not always consistent with governing guidance, although expenditures were for Measure 66 allowed uses.

Expenditure Classification Shows Improvement

Our work for the 2005-2007 biennium showed ODA's expenditure classification, while not completely accurate, showed marked improvement. For example, during our last review, we noted that ODA charged monthly motor pool reimbursements, phone bills and various types of supplies as capital expenditures, even though they were not related to specific projects and thus did not meet the capital expenditure definition.

In contrast, for the 2005-2007 biennium, we question ODA's classification of about \$155,200 expenditures as capital, which is about a 43 percent decrease from the amount questioned in the prior audit. More specifically, ODA properly classified the service and supplies expenditures we tested, with the exception of car pool and Oregon Department of

Oregon Department of Agriculture

Administrative Services (DAS) motor pool charges. For the 2005-2007 biennium, we questioned about \$147,700 in such service and supplies costs classified as capital expenditures. ODA lacked documentation showing that the car pool and DAS motor pool costs were part of a specific Measure 66 capital project. Agency management said the department did not maintain such records for charges incurred during the 2005-2007 biennium. In addition, ODA classified about \$7,500 of employee time as capital expenditures although it was not associated with specific projects, and thus did not meet the capital expenditure requirement.

Without proper documentation and classification of expenditures, ODA may affect the state's ability to fully demonstrate it complied with the requirement that at least 65 percent of Measure 66 funds allocated to the Restoration and Protection Subaccount be used for capital expenditures.

We recommend that ODA continue efforts to ensure that all costs classified as Measure 66 capital expenditures demonstrably meet the definition of capital expenditure as defined in statute and Department of Justice guidance.

We communicated these findings and recommendations, along with other minor issues to the agency in management letter No. 603-2008-07-01, dated July 7, 2008.

Agency's Response:

The Department partially agrees with the findings related to the recommendation.

The Department has and will continue to make improvements in its processes to ensure that costs are classified as Measure 66 capital or operating. Adjustments will be made where feasible. In addition, agency management noted that although records were not readily available in the accounting records they were available within the program areas to ensure that staff were carrying out eligible projects.

- *The ODA car pool reimbursement was charged to PCA (Program Cost Account) 77712, titled "Woodborer Eradication – Capital LF". The PCA is recorded in ODA's Fleet Mileage Database. Since this PCA defines the project, this expenditure is related to a specific capital project. Additionally, a financial report sent to OWEB for the 2005-2007 biennium defines this activity as a project.⁴*

⁴ As discussed in the report, ODA lacked documentation showing that car pool costs were part of a specific Measure 66 capital project. In this instance, although ODA could link the costs to a specific capital project, it did not provide during our fieldwork sufficient documentation to demonstrate that the costs were actually associated with that project.

Oregon Department of Agriculture

- *Agency documentation provided listed several capital projects for the Department of Administrative Services (DAS) motor pool invoice. It was difficult, however, to tie each project on agency documentation to the charges on the DAS Motor Pool bill. Department programs utilizing DAS vehicles will start recording E-plate information on employee activity logs linking these expenditures to specific capital projects.*

Employee time will continue to be reviewed closely to ensure tasks performed are eligible for capital expenditures.

Oregon State Police

Agency Background

The Oregon State Police (OSP) uses Measure 66 funds to enforce fish, wildlife, and habitat protection laws. During the 2005-2007 biennium, OSP spent Measure 66 capital funds primarily to purchase motor vehicles, boats, and airplanes to use for enforcement activities. OSP also expended Measure 66 operational funds to pay for staff positions tasked with fish and wildlife enforcement.

Financial Integrity Audit Results

The purpose of the financial integrity section of our audit of OSP was to determine whether the department spent Measure 66 funds in compliance with constitutional restrictions and appropriately recorded those expenditures.

OSP Spending in Compliance with Measure 66 Restrictions

Based on documentation OSP provided, we concluded that the department expended its Measure 66 funds for the 2005-2007 biennium, which totaled almost \$6.4 million, in compliance with the Oregon Constitution. We also concluded that OSP appropriately classified and recorded those expenditures. We noted minor potential internal control issues, which we communicated to the department in our management letter No. 257-2008-07-01, dated July 2, 2008.

Oregon Department of Environmental Quality

Agency Background

During the 2005-2007 biennium, the Oregon Department of Environmental Quality (DEQ) received Measure 66 operational funds, which it primarily used for water quality monitoring activities that support watershed restoration, including activities directly related to the Oregon Plan for Salmon and Watersheds.⁵

Financial Integrity Audit Results

The purpose of the financial integrity section of our audit of DEQ was to determine whether the department spent Measure 66 funds in compliance with constitutional restrictions and appropriately recorded those expenditures.

DEQ Spending in Compliance with Measure 66 Restrictions

Based on documentation DEQ provided, we concluded that the department expended its Measure 66 funds for the 2005-2007 biennium, totaling almost \$3.8 million, in compliance with the state constitution. We also concluded that DEQ appropriately classified and recorded those expenditures.

⁵ The Oregon Plan's mission is to restore Oregon watersheds and to recover the fish and wildlife populations of those watersheds to productive and sustainable levels in a manner that provides substantial ecological, cultural and economic benefits.

Oregon Watershed Enhancement Board

Agency Background

The Oregon Watershed Enhancement Board (OWEB) promotes and implements programs to restore, maintain, and enhance watersheds in Oregon. OWEB has been designated by statute as the agency that administers the Measure 66 funds deposited in the Restoration and Protection Subaccount. Agencies that receive money from the Restoration and Protection Subaccount report to OWEB about their use of Measure 66 funds.

During the 2005-2007 biennium, OWEB received approximately \$50 million in Measure 66 funds, which comprised about 61 percent of its budget.⁶ These funds are to be used for the restoration and protection of native salmonid populations, watersheds, fish and wildlife habitats and water quality in Oregon.

Financial Integrity Audit Results

The purpose of the financial integrity section of our audit of OWEB was to determine whether the board spent Measure 66 funds in compliance with constitutional restrictions and appropriately recorded those expenditures.

OWEB Spending in Compliance with Measure 66 Restrictions

Based on documentation the Board provided, we concluded that the Board's expenditures of Measure 66 funds during the 2005-2007 biennium, totaling about \$38 million, complied with the state constitution and were appropriately classified and recorded. Although the board's expenditures complied with Measure 66 requirements, we noted exceptions at ODFW and ODA, which received Measure 66 funds through the board. As detailed earlier in this report, most of these exceptions involved expenditures that were classified as Measure 66 capital expenditures but lacked documentation to link the costs to specific capital projects.

We recommend the board work with ODFW and ODA management to ensure they take timely corrective action.

⁶ The \$50 million consists of about \$8 million for operations, almost \$41.5 for capital construction projects, and \$.5 million for research and development.

Oregon Watershed Enhancement Board

Agency's Response:

OWEB agrees with the recommendation. OWEB has and will continue to support the efforts of ODFW and ODA management to take timely corrective action to better document the link between Measure 66 capital costs and specific capital projects.

Overall Financial Integrity for the Restoration and Protection Subaccount

Background

In addition to the agency-specific results detailed above, we also performed audit work in two statewide areas of Measure 66 compliance: capital expenditure and interest earning requirements.

The state constitution requires that at least 65 percent of the Restoration and Protection Subaccount money be used for capital expenditures. This report includes the compliance results cumulatively to date. We will make our final determination of compliance in 2014.

In addition, state statutes require that any interest earned on funds in the Restoration and Protection Subaccount be deposited in the Restoration and Protection Research Fund and be used for research and other activities related to the restoration and protection of native salmonid populations, watersheds, fish and wildlife habitats and water quality, including but not limited to research, monitoring, evaluation and assessment related to the Oregon Plan. According to advice we received from the Department of Justice, at least 65 percent of these monies must be used for capital expenditures.

Financial Integrity Audit Results

The purposes of our additional compliance work were to determine whether all interest earned on Restoration and Protection Subaccount funds was deposited in the Restoration and Protection Research Fund, and whether the Measure 66 funds spent from the Restoration and Protection Subaccount, as well as the Restoration and Protection Research Fund, together met the requirement that at least 65 percent be spent on capital expenditures.

Accrued Interest Was Properly Deposited in Research Fund

We reviewed account statements from the Oregon Treasury Department and determined that during the 2005-2007 biennium interest earned on money in the Restoration and Protection Subaccount was properly deposited to the Restoration and Protection Research Fund as required by ORS 541.377 (4).

State Is Falling Behind in Meeting Capital Expenditure Threshold

Through the end of the 2005-2007 biennium, state agencies had expended or had remaining expenditure authority for almost \$228 million of Measure 66 funds from the Restoration and

Overall Financial Integrity for the Restoration and Protection Subaccount

Protection Subaccount and the Protection Research Fund.⁷ Capital expenditures represented about 64.3 percent of that amount. To comply with the constitutional requirement that at least 65 percent be spent on capital expenditures, the state would need to spend almost an additional \$4.3 million on capital expenditures over and above the remaining unspent expenditure authority.

We recommend that OWEB continue monitoring to ensure that at least 65 percent of the expenditures in the Restoration and Protection Subaccount and the Restoration and Protection Research Fund are capital expenditures. If the gap between actual expenditures and the constitutional restriction is not eliminated, OWEB should consider approaching the Governor and Oregon State Legislature for additional budgetary action.

Agency's Response:

OWEB agrees with this recommendation. OWEB will work with the Secretary of State's Office to monitor whether at least 65 percent of the expenditures of Measure 66 funds are spent as capital expenditures. OWEB will explore all options to ensure that by 2014 at least 65 percent of expenditures are capital expenditures. This may include seeking assistance from the Governor and Legislative Assembly for future budget action.

⁷ The Measure 66 capital budget for OWEB allows six years from the beginning of the biennium for the funds to be expended.

Objectives, Scope and Methodology

This audit consisted of two parts: a review of effectiveness and performance at two agencies that received Measure 66 funds during the 2005-2007 biennium and a review of financial integrity at all six state agencies that received Measure 66 funds during the 2005-2007 biennium from the Parks and Natural Resources Fund.

The purposes of our effectiveness and performance review were as follows:

- determine whether agencies receiving Measure 66 funding had appropriate mechanisms to report on their use of the funds;
- determine whether agencies that reported activity supported by Measure 66 funding provided accurate information; and
- determine whether agencies had established and followed policies that promoted prudent stewardship of Measure 66 funds used.

We focused our effectiveness and performance audit work on OPRD and ODFW. For these two agencies, we identified and reviewed programs that received a significant amount of Measure 66 funds. For OPRD, we reviewed the Property and Resource Management Division, the Local Government Grants Program and the facilities maintenance portion of the Facility Investment Program. Together, these three programs account for about 53 percent of Measure 66 funds OPRD was authorized to expend during the 2005-2007 biennium. For ODFW, we focused on the Fish Screening and Passage, and the Western Oregon Stream Restoration programs, which together account for 86 percent of Measure 66 funds ODFW expended during the 2005-2007 biennium.

The purposes of our financial integrity review were as follows:

- determine whether agencies receiving Measure 66 funds from the Restoration and Protection Subaccount spent the funds in compliance with constitutional restrictions and appropriately recorded those expenditures;
- determine whether all interest earned on money in the Restoration and Protection Subaccount was deposited in the Protection Research Fund;
- determine whether the Measure 66 funds spent from the Restoration and Protection Subaccount, as well as the Restoration and Protection Research Fund, together met the requirement that at least 65 percent be spent on capital expenditures; and
- verify that OPRD correctly classified certain operational expenditures that could have affected compliance with legislative limitations for administrative costs and confirm that expenditures for the State Fair were consistent with constitutional restrictions.

Objectives, Scope and Methodology

The scope of our compliance review included all six agencies that received and expended Measure 66 funds during the 2005-2007 biennium: OPRD, ODFW, OSP, ODA, DEQ, and OWEB. Our audit period covered Measure 66 expenditures incurred from July 1, 2005, to June 30, 2007.

In order to answer our audit objectives, we reviewed applicable sections of the Oregon Constitution, ballot measure summaries, attorney general opinions, statutes and rules, agency and program budgets and goals. In addition, we reviewed external reporting, such as reports to OWEB, agency websites, supporting documentation for grants, treasury statements, presentations to the Oregon Legislature, special committees and commissions. We also reviewed OPRD and ODFW progress reports for key performance measures affected by Measure 66 funding and prior audit reports for the 1999-2001, 2001-2003 and 2003-2005 biennia. Finally, we spoke to responsible agency officials and program staff, including those at OWEB, the entity responsible for administering Measure 66 funds deposited in the Restoration and Protection Subaccount.

We determined whether agencies had appropriate reporting mechanisms by evaluating external reporting and assessing whether the reporting provided sufficient detail to describe program goals, listed outputs and outcomes, and if applicable, reported progress toward meeting established goals.

In order to determine the accuracy of information reported for ODFW and OPRD's key performance measures (KPMs), we reviewed agency documentation details, and where possible, we verified the mathematical accuracy of the calculations involved. The KPMs we reviewed for OPRD were *park lands and waters OPRD acquired as a percentage of total goals* and *the percent reduction in facilities maintenance backlog since 1999*. We did not review the accuracy of the KPM *percentage of local grants executed within 730 days* because the program did not have any grants scheduled to close during fiscal year 2007. Instead, we reviewed the accuracy of the information the program reported to the Parks Commission.

We also verified the accuracy of the information included in ODFW's report entitled *The Fish Screening Program, Economic Incentives for Water Users to Protect Fish, 2005-2007 Report to the Legislature*. Specifically, we reviewed supporting documentation for all 94 projects and compared report information to source documents for county, basin, stream and flow information. For any discrepancies noted, we followed up with program staff and reviewed any additional information they provided. We also evaluated the accuracy of ODFW's report to OWEB for the same time period by reconciling its completed screen project numbers with those included in the report to the Legislature. Furthermore, we used information in these two reports, as well as conversations with program staff to reach our conclusions about the accuracy of ODFW's key performance measure *number of unscreened priority water diversions*.

In order to determine whether agencies had and followed policies promoting prudent stewardship, we first gained an understanding of program purposes, goals and operations. We

Objectives, Scope and Methodology

also reviewed applicable policies and processes. Finally, we selected a sample of projects, examined supporting documentation and talked to program staff to determine whether the projects followed the established program policies and processes.

More specifically, for OPRD's Property and Resource Management Division, we reviewed all 16 property acquisitions made during the 2005-2007 biennium and verified that purchases met agency acquisition goals, were approved by OPRD management and the Parks Commission, were supported by appraisals and reviews consistent with OPRD policy, were purchased at market value as approved by the Parks Commission, and were transferred to state ownership.

For OPRD's Local Government Grants Program, we reviewed documentation related to 26 of the 79 grants that were either approved during the 2005-2007 biennium and/or received Measure 66 funds during that time.

Given the problems listed on pages 11-12 of our report, we were unable to determine the population size for the facilities maintenance backlog related to OPRD's Facilities Investment Program (FIP). Therefore, we used budgeted and completed FIP project lists OPRD provided, and information from the State Financial Management Application to select a sample of five projects that were identified as backlog at the beginning of the 2005-2007 biennium, and were completed during the biennium using Measure 66 funds. These five projects accounted for almost \$2.6 million in Measure 66 expenditures during the 2005-2007 biennium. We reviewed project files and talked to OPRD staff to verify that payments were appropriately supported and that OPRD performed reviews consistent with department processes.

For ODFW's Fish Screening and Passage Program, we reviewed program files to determine whether grant applications followed the established approval process, including the prioritization method that scores each application based on several criteria, such as basin, diversion size, species and count of native fish present in the water. Additionally, we reviewed documentation and talked to program staff in order to verify whether ODFW employed a ranking process to evaluate and allocate funds to outside projects.

For ODFW's Western Oregon Stream Restoration Program, we reviewed a sample of employee position descriptions and compared listed duties to Measure 66 funding goals in order to determine whether they were appropriate for such funding. We also examined several timesheets in order to determine whether they were properly reviewed.

To determine whether agencies spent Measure 66 funds from the Restoration and Protection Subaccount in compliance with constitutional restrictions, we selected a sample of transactions from each agency and reviewed supporting documentation to ensure expenditures were appropriately classified and met constitutional restrictions for Measure 66 fund uses. Overall, for the 2005-2007 biennium, we tested more than 15 percent of operating and capital expenditures funded from the Restoration and Protection Subaccount. We also tested almost two percent of operating expenditures funded from the Parks Subaccount.

Objectives, Scope and Methodology

Furthermore, we obtained Oregon State Treasury statements and verified that the interest earned on the Restoration and Protection Subaccount was deposited in the Restoration and Protection Research Fund. In addition, we analyzed expenditures to determine the statewide cumulative progress toward complying with the requirement that at least 65 percent of expenditures from the Restoration and Protection Subaccount and the Restoration and Protection Research Fund be spent on capital expenditures.

In order to determine whether OPRD correctly classified certain operational expenditures that could have affected compliance with legislative limitations, we used analytical procedures to test operating expenditures and gain reasonable assurance that OPRD is not using dollars appropriated for operations to pay for administrative expenditures. We also attempted to determine whether legislative direction regarding the use of Measure 66 funds for the State Fair was consistent with uses allowed by the Oregon Constitution. To do so, we sought advice from the Oregon Attorney General. As of this report's publication date, we had not yet received that advice.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

ABOUT THE SECRETARY OF STATE AUDITS DIVISION

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

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The courtesies and cooperation extended by officials and employees of the Oregon Department of Agriculture, Oregon Department of Environmental Quality, Oregon Department of Fish and Wildlife, Oregon Parks and Recreation Department, Oregon State Police, and Oregon Watershed Enhancement Board during the course of this audit were commendable and sincerely appreciated.

Auditing to Protect the Public Interest and Improve Oregon Government