

Report No. 2009-25

October 2009



Kate Brown, Secretary of State  
Gary Blackmer, Director, Audits Division

# Secretary of State Informational Report

State of Oregon

## **State Auditor's Report: A Summary of Audits for the 2007 - 2009 Biennium**



## 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.*



**Kate Brown**  
SECRETARY OF STATE  
  
**BARRY PACK**  
DEPUTY SECRETARY OF STATE



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October 22, 2009

This report covers the past two years of work performed by the Secretary of State's Audits Division. Every good organization is constantly seeking ways to improve, and these biennial reports provide a basis for us, and the public, to track our efforts, and progress to better serve Oregonians. Indeed, the summaries show the wide range of work performed by the division to hold the many state agencies accountable.

As the new Secretary of State, I have a keen interest in assessing the work of the Audits Division and ensuring that it produces the greatest value possible for Oregonians. First of all, I have been very impressed with the professionals in this office and the great care they take in conducting their work to the very highest government auditing standards. But I also want them to ask more questions about the results state agencies are getting for their dollars, and make recommendations for improvement. I know that an increased emphasis on performance audits will produce valuable information for the public, agencies, and legislators.

For now, we should all appreciate the quality and range of work produced by the Audits Division over these past two years and recognize the breadth of professionalism, talent, and dedication among the staff. But I also want to recognize their commitment, and even enthusiasm, for the expanded role I want them to fulfill, which I think will be reflected in the coming audits and the next biennial report.

Sincerely,

A handwritten signature in black ink that reads "Kate Brown". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Kate Brown  
Oregon Secretary of State



# 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, a specific type of performance audit, 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.

The Audits Division also administers the Municipal Audit Program. State law requires that all Oregon municipalities be audited at least once each fiscal year and file the resulting audit report with the Audits Division. In cooperation with the Board of

Accountancy, and in consultation with the Oregon Society of Certified Public Accountants, the Audits Division prescribes the minimum standards for the presentation of the reports and the conduct of the audits. Audits Division staff also perform desk reviews and field visits to accounting firms to ensure that they meet these requirements.

Finally, the division investigates allegations of waste, inefficiency, and abuse. Our role is to ensure that losses are uncovered and to make recommendations to prevent future occurrences. In cases in which the Audits Division substantiates such allegations, it issues a public report that summarizes its findings and includes recommendations for improvement.

# 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, several financial statement opinion audits, and several change of director reviews. 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.

**2007 - 2009 Financial Audits**

- Oregon Short-Term Fund: An Investment Pool of the State of Oregon for the Fiscal Year Ended June 30, 2007 (No. 2007-18), September 7, 2007
- Department of Human Services Safe Drinking Water Revolving Loan Fund (No. 2007-30), December 19, 2007
- Oregon Public Employees Retirement System: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2007 (No. 2007-33), December 25, 2007
- State of Oregon Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2007, December 27, 2007
- Oregon Housing and Community Services Department: Comprehensive Annual Financial Report Enterprise Funds for the Fiscal Year Ended June 30, 2007 (No. 2007-34), December 30, 2007
- Oregon State Lottery for the Fiscal Year Ended June 30, 2007 (No. 2008-01), January 4, 2008
- Columbia River Gorge Commission for the Fiscal Year Ended June 30, 2007 (No. 2008-02), March 16, 2008
- State of Oregon Statewide Single Audit Report for the Year Ended June 30, 2007 (No. 2008-03), March 20, 2008
- Department of Energy: Small Scale Energy Loan Program for the Fiscal Years Ended June 30, 2007 and 2006 (No. 2008-16), April 24, 2008
- Oregon Economic and Community Development Department: Special Public Works Fund and Water Fund for the Fiscal Year Ended June 30, 2007 (No. 2008-18), June 9, 2008
- Oregon Short-Term Fund: An Investment Pool of the State of Oregon for the Year Ended June 30, 2008 (No. 2008-26), September 8, 2008; (Management Letter 170-2008-11-01), September 8, 2008
- Department of Environmental Quality: Clean Water State Revolving Fund Loan Program for the Fiscal Year Ended June 30, 2007 (No. 2008-27), September 24, 2008
- Department of Human Services: Follow-Up Report on Applying Agreed-Upon Procedures for Safe Drinking Water Revolving Loan Fund (No. 2008-31), September 30, 2008
- Oregon Housing and Community Services Department: Comprehensive Annual Financial Report Enterprise Funds for the Fiscal Year Ended June 30, 2008 (No. 2008-35), November 26, 2008

**2007 - 2009 Financial Audits (continued)**

- Oregon State Lottery: An Enterprise Fund for the State of Oregon Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2008 (No. 2008-42), December 31, 2008
- Oregon Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2008 (No. 2009-01), January 29, 2009
- Oregon Public Employees Retirement System: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2008 (No. 2009-02), January 29, 2009
- Columbia River Gorge Commission for the Fiscal Year Ended June 30, 2008 (No. 2009-04), February 17, 2009
- Oregon Economic and Community Development Department: Special Public Works Fund and Water Fund for the Fiscal Year Ended June 30, 2008 (No. 2009-06), March 30, 2009
- State of Oregon Statewide Single Audit Report for the Fiscal Year Ended June 30, 2008 (No. 2009-07), March 31, 2009
- Department of Human Services: Applying Agreed-Upon Procedures for Safe Drinking Water Revolving Loan Fund for Fiscal Years Ended June 30, 2007 and 2008 (No. 2009-08), March 30, 2009
- Department of Energy: Small Scale Energy Loan Program for the Fiscal Years Ended June 30, 2008 and 2007 (No. 2009-13), May 18, 2009

**2007 - 2009 Financial Audit Management Letters by Agency**

- Administrative Services, Department of: Statewide Single Audit Including Selected Financial Accounts and Federal Awards for the Year Ended June 30, 2007 (No. 107-2008-02-01), February 4, 2008
- Administrative Services, Department of: Selected Financial Accounts for the Year Ended June 30, 2008 (No. 107-2009-02-01), February 3, 2009
- Blind, Commission for the: Statewide Single Audit of Selected Federal Program for the Year Ended June 30, 2007 (No. 585-2008-03-01), March 10, 2008
- Blind, Commission for the: Statewide Single Audit of Selected Federal Program for the Year Ended June 30, 2008 (No. 585-2009-03-01), March 23, 2009
- Children and Families, Commission on: Audit of Selected Federal Program for the Year Ended June 30, 2007 (No. 423-2008-07-01), July 8, 2008

**2007 - 2009 Financial Audit Management Letters by Agency (continued)**

- Community Colleges and Workforce Development, Department of: Statewide Single Audit of Selected Federal Program for the Year Ended June 30, 2007 (No. 586-2008-03-01), March 3, 2008
- Community Colleges and Workforce Development, Department of: Statewide Single Audit of Selected Federal Program for the Year Ended June 30, 2008 (No. 586-2009-02-01), February 24, 2009
- Consumer and Business Services, Department of: Statewide Single Audit of Selected Financial Accounts for the Year Ended June 30, 2007 (No. 440-2008-02-01), February 4, 2008
- Consumer and Business Services, Department of: Statewide Single Audit of Selected Financial Accounts for the Year Ended June 30, 2008 (No. 440-2009-01-01), January 22, 2009
- Corrections, Department of: Statewide Single Audit of Selected Financial Accounts for the Year Ended June 30, 2007 (No. 291-2008-02-01), February 6, 2008
- Corrections, Department of: Statewide Single Audit of Selected Financial Accounts for the Year Ended June 30, 2008 (No. 291-2009-01-01), January 30, 2009
- Education, Department of: Statewide Single Audit of Selected Financial Accounts for the Year Ended June 30, 2007 (No. 581-2008-02-01), February 7, 2008
- Education, Department of: Statewide Single Audit of Selected Financial Accounts for the Year Ended June 30, 2008 (No. 581-2009-02-01), February 9, 2009
- Employment Department, Oregon: Statewide Single Audit of Selected Financial Accounts for the Year Ended June 30, 2007 (No. 471-2008-02-01), February 26, 2008
- Employment Department, Oregon: Statewide Single Audit of Selected Federal Programs for the Year Ended June 30, 2007 (No. 471-2008-03-01), March 4, 2008
- Employment Department, Oregon: Statewide Single Audit of Selected Financial Accounts for the Year Ended June 30, 2008 (No. 471-2009-02-01), February 25, 2009
- Environmental Quality, Oregon Department of: Statewide Single Audit of Selected Financial Accounts for the Year Ended June 30, 2007 (No. 340-2008-01-01), January 28, 2008
- Environmental Quality, Oregon Department of: Statewide Single Audit of a Selected Federal Program for the Year Ended June 30, 2007 (No. 340-2008-02-01), February 27, 2008

**2007 - 2009 Financial Audit Management Letters by Agency (continued)**

- Environmental Quality, Oregon Department of: Statewide Single Audit of Selected Financial Accounts and a Selected Federal Program for the Year Ended June 30, 2008 (No. 340-2009-02-01), February 19, 2009
- Fish and Wildlife, Oregon Department of: Statewide Single Audit of Selected Financial Accounts for the Year Ended June 30, 2007 (No. 635-2008-02-01), February 20, 2008
- Fish and Wildlife, Oregon Department of: Selected Financial Accounts for the Year Ended June 30, 2008 (No. 635-2009-03-01), March 9, 2009
- Forestry, Oregon Department of: Statewide Single Audit of Selected Financial Accounts for the Year Ended June 30, 2007 (No. 629-2008-02-01), February 6, 2008
- Forestry, Oregon Department of: Statewide Single Audit of Selected Financial Accounts for the Year Ended June 30, 2008 (No. 629-2009-02-01), February 10, 2009
- Human Services, Department of: Statewide Single Audit of Selected Financial Accounts for the Year Ended June 30, 2007 (No. 100-2008-02-01), February 27, 2008
- Human Services, Department of: Statewide Single Audit of Selected Federal Programs for the Year Ended June 30, 2007 (No. 100-2008-03-01), March 10, 2008
- Human Services, Department of: Statewide Single Audit of a Selected Federal Program for June 30, 2007 (No. 100-2008-07-01), July 8, 2008
- Human Services, Department of: Statewide Single Audit of Selected Federal Programs for the Year Ended June 30, 2008 (No. 100-2009-03-01), March 20, 2009
- Human Services, Department of: Statewide Single Audit of Selected Financial Accounts for the Year Ended June 30, 2008 (No. 100-2009-03-02), March 25, 2009
- Lands, Oregon Department of State: Statewide Single Audit of Selected Financial Accounts for the Year Ended June 30, 2007 (No. 141-2008-02-01), February 4, 2008
- Lands, Oregon Department of State: Statewide Single Audit of Selected Financial Accounts for the Year Ended June 30, 2008 (No. 141-2009-01-01), January 22, 2009
- Military Department, Oregon: Statewide Single Audit of Selected Financial Accounts for the Year Ended June 30, 2007 (No. 248-2008-02-01), February 8, 2008

**2007 - 2009 Financial Audit Management Letters by Agency (continued)**

- Military Department, Oregon: Statewide Single Audit of Selected Financial Accounts for the Year Ended June 30, 2008 (No. 248-2009-01-01), January 30, 2009
- Parks and Recreation Department, Oregon: Statewide Single Audit of Selected Financial Accounts for the Year Ended June 30, 2007 (No. 734-2008-02-01), February 13, 2008
- Parks and Recreation Department, Oregon: Statewide Single Audit of Selected Financial Accounts for the Year Ended June 30, 2008 (No. 634-2009-01-01), February 12, 2009
- Police, Oregon State Department of: Statewide Single Audit of Selected Financial Accounts for the Year Ended June 30, 2007 (No. 257-2008-02-01), February 14, 2008
- Police, Oregon State Department of: Statewide Single Audit of Selected Financial Accounts for the Year Ended June 30, 2008 (No. 257-2008-12-01), December 31, 2008
- Private Health Partnerships, Office of: Statewide Single Audit of a Selected Federal Program for the Year Ended June 30, 2007 (No. 442-2008-03-01), March 10, 2008
- Private Health Partnerships, Office of: Statewide Single Audit of a Selected Federal Program for the Year Ended June 30, 2008 (No. 442-2009-03-01), February 12, 2009
- Revenue, Department of: Statewide Single Audit of Selected Financial Accounts for the Year Ended June 30, 2007 (No. 150-2008-03-01), March 3, 2008
- Revenue, Department of: Statewide Single Audit of Selected Financial Accounts for the Year Ended June 30, 2008 (No. 150-2009-02-01), February 10, 2009
- Transportation, Oregon Department of: Statewide Single Audit of Selected Financial Accounts for the Year Ended June 30, 2007 (No. 730-2008-02-01), February 15, 2008
- Transportation, Oregon Department of: Statewide Single Audit of Selected Financial Accounts for the Year Ended June 30, 2008 (No. 730-2009-02-01), February 5, 2009
- Treasurer, Office of the State: Review of Internal Controls Over Financial Reporting as of June 30, 2007 (No. 170-2008-02-01), February 7, 2008
- Treasurer, Office of the State: Review of Internal Controls Over Financial Reporting as of June 30, 2008 (No. 170-2009-03-01), February 24, 2009

**2007 - 2009 Financial Audit Management Letters by Agency (continued)**

- Youth Authority, Oregon: Statewide Single Audit of Selected Financial Accounts for the Year Ended June 30, 2007 (No. 415-2008-01-01), January 30, 2008
- Youth Authority, Oregon: Statewide Single Audit of Selected Financial Accounts for the Year Ended June 30, 2008 (No. 415-2008-12-01), December 18, 2008

**2007 - 2009 Contracted Financial Audits**

- SAIF Corporation (A Component Unit of the State of Oregon) Financial Statements as of and for the Years Ended December 31, 2006 and 2005 [GAAP Basis] (No. 2007-21), September 12, 2007
- SAIF Corporation Financial Statements—Statutory Basis as of and for the Years Ended December 31, 2006 and 2005, Supplemental Schedules as of December 31, 2006, (No. 2007-22), September 12, 2007
- Oregon Beef Council for the Fiscal Year Ended June 30, 2007 (No. 2007-25), October 16, 2007
- Oregon University System 2007 Annual Financial Report (No. 2007-29), December 11, 2007
- Oregon Department of Veterans' Affairs: Annual Financial Report Enterprise Funds for the Fiscal Years Ended June 30, 2007 and 2006 (No. 2007-32), December 24, 2007
- Oregon Appraiser Certification and Licensure Board for the Biennium Ended June 30, 2007 (No. 2008-04), April 9, 2008
- Oregon Board of Architect Examiners for the Biennium Ended June 30, 2007 (No. 2008-05), April 9, 2008
- Oregon Board of Geologist Examiners for the Biennium Ended June 30, 2007 (No. 2008-06), April 9, 2008
- Oregon Landscape Architect Board for the Biennium Ended June 30, 2007 (No. 2008-07), April 9, 2008
- Oregon Landscape Contractors Board for the Biennium Ended June 30, 2007 (No. 2008-08), April 9, 2008
- Oregon Board of Massage Therapists for the Biennium Ended June 30, 2007 (No. 2008-09), April 9, 2008
- Oregon Board of Optometry for the Biennium Ended June 30, 2007 (No. 2008-10), April 9, 2008

**2007 - 2009 Contracted Financial Audits (continued)**

- Oregon Patient Safety Commission for the Biennium Ended June 30, 2007 (No. 2008-11), April 9, 2008
- Oregon Physical Therapist Licensing Board for the Biennium Ended June 30, 2007 (No. 2008-12), April 9, 2008
- Oregon Tourism Commission for the Biennium Ended June 30, 2007 (No. 2008-13), April 9, 2008
- Oregon Wine Board for the Biennium Ended June 30, 2007 (No. 2008-14), April 9, 2008
- Oregon Board of Examiners for Engineering and Land Surveying for the Biennium Ended June 30, 2007 (No. 2008-15), April 21, 2008
- Oregon Beef Council for the Year Ended June 30, 2008 (No. 2008-30), October 1, 2008
- Oregon Department of Veterans' Affairs: Annual Financial Report Enterprise Funds for the Fiscal Years Ended June 30, 2008 and 2007 (No. 2008-36), December 2, 2008
- SAIF Corporation (A Component Unit of the State of Oregon) Financial Statements as of and for the Years Ended December 31, 2007 and 2006, [GAAP Basis] (No. 2008-37), December 12, 2008
- SAIF Corporation Financial Statements—Statutory Basis as of and for the Years Ended December 31, 2007 and 2006, Supplemental Schedules as of December 31, 2007, Report (No. 2008-38), December 12, 2008
- Oregon University System 2008 Annual Financial Report (No. 2008-43), December 31, 2008

**2007 - 2009 Change of Director Reviews**

- Board of Psychologist Examiners: Change of Director Review (No. 122-2007-07-01), July 2, 2007
- Oregon State Police: Change of Director Review (No. 257-2007-11-01), November 28, 2007
- Oregon Advocacy Commissions Office: Change of Director Review (No. 131-2008-03-01), March 27, 2008
- Employment Relations Board: Change of Director Review (No. 115-2008-03-01), March 27, 2008
- Tax Practitioners, Oregon State Board of: Change of Director Review (No. 119-2008-03-01), March 27, 2008

**2007 - 2009 Change of Director Reviews (continued)**

- Racing Commission, Oregon: Change of Director Review (No. 862-2008-04-01), April 18, 2008
- Real Estate Agency: Change of Director Review (No. 919-2008-04-01), April 21, 2008
- Licensed Counselors and Therapists, Board of: Change of Director Review (No. 108-2008-06-01), June 24, 2008
- Nursing, Oregon State Board of: Change of Director Review (No. 851-2008-07-01), July 15, 2008
- Economic and Community Development Department: Change of Director Review (No. 123-2008-07-01), July 15, 2008

# Performance Audits

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

## **Managing Risks and Improving Government**

Government continues to adjust its activities and methods of program delivery at a time of difficult financial pressures and economic uncertainty. Any organization undertaking significant change is open to 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. 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. Additionally, alternative service delivery arrangements, such as contracting for services, require that managers obtain new skills to deal with new risks and to monitor whether public policy goals are achieved efficiently. As agency staff adapt to new roles and responsibilities during this period of change, agencies risk being less effective. In light of these risks, our performance audits are more important than ever, as they help ensure the effective and responsible delivery of essential public services.

Performance auditing is an independent and objective evaluation of evidence with the goal to provide management and those charged with governance and oversight information to improve program performance and operations, reduce costs, facilitate decision making, and contribute to public accountability. A performance audit focuses on a government organization, program, activity, or function and typically includes analyzing and synthesizing a broad array of quantitative and qualitative information about an organization's resources, workload, and results. Generally, performance auditing can be categorized into audits that address program effectiveness, economy and efficiency, internal control, and compliance. Our performance audits have a wide variety of objectives. One particular type of performance audit we conduct is an information technology audit. These audits include general control reviews, application control reviews, security reviews, and/or system development reviews.

In addition to our typical performance audit work, our Government Waste Hotline receives and investigates allegations related to improper governmental activities by state employees or agencies. We investigate allegations of potential waste, inefficiency, or abuse and recommend operational and management improvements to better prevent future occurrences. We provide information to appropriate parties including state agencies, law enforcement, the Department of Justice, the Oregon Governmental Ethics Commission, and local district attorneys.

During the 2007-2009 biennium, we completed 34 performance audit and informational reports. The informational reports are denoted with an asterisk (\*) following the release date. In addition, we issued several performance related management letters designed to facilitate decision-making.

**2007 - 2009 Performance Audits and Informational Reports**

- Secretary of State: Government Waste Hotline January–December 2006 (No. 2007-16), July 24, 2007\*
- Oregon Department of Fish & Wildlife: Federal Reimbursement and Cash Management Review (No. 2007-17), August 3, 2007
- Department of Community Colleges and Workforce Development: Travel Expense Audit (No. 2007-19), September 7, 2007
- Secretary of State: State Auditor's Report 2005 – 2007 Biennium (No. 2007-20), September 11, 2007\*
- Oregon Department of Revenue: 9-1-1 Tax Review (No. 2007-23), September 19, 2007
- Department of Education: Alternative Education and ADM Reporting (No. 2007-24), September 20, 2007
- Department of Administrative Services: Leased Office Space Utilization at State Agencies (No. 2007-26), November 7, 2007
- Department of Veterans' Affairs: Enhancement and Expansion of County Veterans' Services (No. 2007-27), November 21, 2007
- Department of Administrative Services: Statewide Financial Management Application – Data Integrity Audit Follow Up (No. 2007-28), December 7, 2007
- Department of Administrative Services: Statewide Financial Management Application Computer Controls Review (No. 2007-31), December 20, 2007
- Oregon Public Utility Commission: Residential Services Protection Fund Surcharge Reporting and Remittance Can Be Improved (No. 2008-17), May 27, 2008
- Department of Administrative Services: Smart Buy Program Review (No. 2008-19), June 4, 2008
- Oregon Parks and Recreation Department: Follow-up Report on Capital and Non-Capital Assets (No. 2008-20), July 3, 2008
- Department of Administrative Services: State Data Center Review (No. 2008-21), July 15, 2008
- Department of Human Services: Interpretive Services Audit (No. 2008-22), July 21, 2008
- Secretary of State: Government Waste Hotline January–December 2007 (No. 2008-23), August 6, 2008\*

**2007 - 2009 Performance Audits and Informational Reports (continued)**

- Department of Human Services: Integrated Information System Application Controls Review (No. 2008-24), August 8, 2008
- Oregon Board of Dentistry: Internal Control Review (No. 2008-25), September 10, 2008
- Department of Administrative Services: Oregon State Payroll Application Computer Controls Review (No. 2008-28), September 29, 2008
- Department of Administrative Services: Statewide Financial Management Application Computer Controls Review (No. 2008-29), September 29, 2008
- Department of Forestry and State Lands: Review of Common School Fund Forest Land Management Costs (No. 2008-32), November 5, 2008
- Multnomah Education Service District: Contracting Practices (No. 2008-33), November 7, 2008
- Department of Fish & Wildlife: Follow-up Report on Capital and Non-capital Assets (no. 2008-34), November 20, 2008
- Oregon Youth Authority: Oversight of Basic and Diversion Services Funds (No. 2008-39), December 23, 2008
- Measure 66 Funding: Financial Integrity, Effectiveness and Performance for the 2005-2007 Biennium (No. 2008-40), December 29, 2008
- Department of Corrections: Automated Financial Accounting Manufacturing Inventory System Computer Controls Review (No 2008-41), December 30, 2008
- Oregon Parks and Recreation Department: Loss of Funds Investigation and Internal Controls Review at the Oregon State Fair and Exposition Center (No. 2009-03), February 6, 2009
- Department of Administrative Services: Enterprise Security Office Review (No. 2009-05), February 18, 2009
- Department of Administrative Services: Statewide Financial Management Application: Accounting System Continues to be Reliable, but Security and Disaster Recovery Risks Remain (No. 2009-09), April 27, 2009
- Department of Administrative Services: Oregon State Payroll Application: Data and Program Integrity Ensured, But Security and Disaster Recovery Controls Inadequate (No. 2009-10), April 29, 2009
- Oregon Youth Authority: Improvements Needed in Availability and Reliability of Critical Juvenile Justice Information (No. 2009-11), May 7, 2009

**2007 - 2009 Performance Audits and Informational Reports (continued)**

- Oregon Commission for the Blind: Actions Needed to Ensure Funds Are Used for Client Purposes, Expenditures Are Controlled, and Assets Are Protected (No. 2009-12), May 8, 2009
- Oregon State Hospital Replacement: Good Construction Management Practices Help Protect State Investment (No. 2009-14), May 29, 2009
- Oregon Secretary of State: Government Waste Hotline January–December 2008 (No. 2009-15), June 11, 2009\*

**2007 - 2009 Performance Related Management Letters by Agency**

- Administrative Services, Department of: Review of Smart Buy Program (No. 107-2007-08-01), August 22, 2007
- Administrative Services, Department of: Investigation of Allegation Relating to Procurement Contract No. 7560 (No. 107-2008-09-01), September 3, 2008
- Agriculture, Department of: Statewide Audit of Measure 66 Expenditures for the 2005-07 Biennium (No. 603-2008-07-01), July 7, 2008
- Children and Families, Commission on: High-Risk Juvenile Crime Prevention Grant Survey and Risk Assessment (No. 423-2009-01-01), March 10, 2009
- Economic and Community Development Department: Review of the Department's Grant to the Port of Newport (No. 123-2009-02-01), February 27, 2009
- Education, Department of: Risk Assessment of Oregon School for the Deaf and Oregon School for the Blind (No. 581-2008-04-01), April 15, 2008
- Education, Department of: Multnomah Education Service District (No. 581-2009-06-01), June 30, 2009
- Environmental Quality, Department of: Statewide Audit of Measure 66 Expenditures for the 2005-07 Biennium (No. 340-2008-07-01), July 2, 2008
- Fish & Wildlife, Department of: Statewide Audit of Measure 66 Expenditures for the 2005-07 Biennium (No. 635-2008-07-01), July 11, 2008
- Forestry and State Lands, Departments of: Common School Fund Forest Land Management Costs (Management Letter 629-2008-11-01), November 5, 2008
- Human Services, Department of: Investigations of Time Reporting and State Vehicle Usage (No. 100-2007-07-01), July 24, 2007

**2007 - 2009 Performance Related Management Letters by Agency**

- Police, Oregon State Department of: Statewide Audit of Measure 66 Expenditures for the 2005-07 Biennium (No. 257-2008-07-01), July 2, 2008
- Police, Oregon State Department of: Review of Selected Procurement and Contracting Practices (No. 257-2008-10-01), October 6, 2008
- Revenue, Department of: Comparison of Data from the Oregon Real Estate Agency with Data Maintained by the Oregon Department of Revenue (No. 150-2009-05-01), May 19, 2009
- Transportation, Department of: Investigation of Allegations Relating to Activities at the Iron Mountain Rock Quarry (No. 730-2007-08-01), August 22, 2007
- Watershed Enhancement Board: Statewide Audit of Measure 66 Expenditures for the 2005-07 Biennium (No. 691-2008-07-01), July 15, 2008

Below is a brief summary of each performance audit and informational report released in 2007 – 2009.

*Secretary of State: Government Waste Hotline January–December 2006 (No. 2007-16)* 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, 2006, through December 31, 2006.

*Oregon Department of Fish & Wildlife: Federal Reimbursement and Cash Management Review (No. 2007-17)* The purpose of this audit was to determine whether opportunities exist to reduce both the extent and impact of delays experienced by the Oregon Department of Fish and Wildlife (department) in obtaining federal reimbursement of costs incurred on federal contracts. The department did not receive timely reimbursement for more than 65 percent of the contract expenditures it billed to federal agencies during fiscal year 2006. Specifically, the reimbursement for \$27.3 million of the \$41.4 million in total federal billings took longer than 30 days from preparation to receipt of payment. Reimbursement of \$8.6 million took longer than 120 days. As a result, the department had less cash available to meet its operating needs. Although some delays were due to factors beyond the department's immediate control, opportunities appear to exist that should reduce the future extent of delays. These potential opportunities center on improving receivables and contract management practices. Moreover, two strategies, charging federal agencies interest for delayed reimbursements and using monies available in the Deferred Maintenance Subaccount, may help the department reduce the impact of reimbursement delays.

*Department of Community Colleges and Workforce Development: Travel Expense Audit (No. 2007-19)* The purpose of this audit was to determine whether the Department of Community Colleges and Workforce Development (department) complied with state travel policies and rules. We found that the department did not always comply with state travel policies and rules. Specifically, the department did not always use the most cost-effective means of transportation and did not document its reasons for using private

vehicles instead of state vehicles. In addition, the Oregon State Board of Education (board) could improve its oversight function of the Commissioner's financial transactions to comply with state policy. Finally, we identified errors, noncompliance and/or lack of documentation related to nine travel claims.

*Secretary of State: State Auditor's Report 2005 – 2007 Biennium (No. 2007–20)* This is an informational report that summarizes the financial and performance audits completed during the 2005 – 2007 Biennium.

*Oregon Department of Revenue: 9-1-1 Tax Review (No. 2007-23)* The purpose of this audit was to determine whether the Oregon Department of Revenue (department) ensured that telecommunication providers reported and remitted all calendar year 2006 Emergency Communication Tax (9-1-1 tax) to which the state was entitled. For instances in which the department did not fully ensure telecommunication providers reported and remitted the tax owed to the state, our objective was to identify contributing factors and make appropriate recommendations. The department did not ensure telecommunication providers reported and remitted all 9-1-1 tax owed to the State of Oregon for calendar year 2006. Based on our fourth-quarter estimate, unless changes are made to the 9-1-1 tax program, the state could lose about \$1.2 million in revenue a year. Furthermore, our analysis using Federal Communications Commission data suggests that an additional \$774,000 in 9-1-1 tax revenue may have gone unreported during the fourth quarter of 2006. Based on this estimate, as much as \$3.1 million in additional revenue may go underreported per year.

*Department of Education: Alternative Education and ADM Reporting (No. 2007-24)* The purposes of our audit were to (1) describe the types of programs, students served and Average Daily Membership (ADM) claimed for alternative education programs in Oregon and to (2) determine whether school districts' 2003-2004 school year ADM claims for selected alternative education programs were appropriate and, if not, determine the factors that contributed to any inappropriate claims and their impact on the State School Funds (SSF). We found that alternative education programs are operated by a variety of entities, serve diverse students who attend programs for to meet various needs, and use varied ADM accounting methods. In addition, during our review of ADM claims for four alternative education programs, we found that districts claimed approximately \$1,125,000 in SSF based on inappropriate and questionable ADM submissions.

*Department of Administrative Services: Leased Office Space Utilization at State Agencies (No. 2007-26), November 7, 2007* The purpose of this audit was to determine whether state agencies had significant underutilized space in their leased office facilities. If so, our purpose was also to determine the reasons for the underutilized space and whether agencies were taking effective steps to minimize the costs of this space. During fiscal 2006, state agencies leased more than 3.6 million square feet of office space at a total monthly cost of nearly \$5 million. We identified relatively few leased office facilities (11 facilities, or about 4 percent of the total facilities reviewed) with significant underutilized space. We did find, however, lesser amounts of underutilized space at many other leased office facilities. We found evidence that agencies take steps to reduce underutilization, such as subleasing unused space, vacating underutilized space and consolidating operations, moving staff to underutilized facilities, negotiating an early buyout of one lease, and seeking DAS help in filling excess space. Despite agency steps to reduce underutilization, we noted that in certain instances agencies could have taken additional actions to mitigate underutilized space. Given the cost of underutilized office space, such enhanced efforts could be worthwhile.

*Department of Veterans' Affairs: Enhancement and Expansion of County Veterans' Services (No. 2007-27)* Our audit had two objectives. The first was to determine whether

the Oregon Department of Veterans' Affairs (department) appropriately distributed state funds to counties for enhancing and expanding services to veterans. The second was to determine whether selected counties expended those funds in compliance with governing statutes and administrative rules. We limited our review to funds the department distributed during fiscal year 2006 and the first quarter of fiscal year 2007. We found that the department appropriately distributed enhancement and expansion funds to counties and that the methodology and formula it used to calculate the annual county distributions complied with statutory requirements and administrative rules. However, our review of practices and documentation in nine counties identified several instances that appeared to violate statutes or impaired accountability over the use of enhancement and expansion funds. As a result, we question whether counties consistently expended enhancement and expansion funds in compliance with statutes and rules, and achieved the purposes for which the funds were provided. We found that by better aligning the county reporting function with program monitoring needs, providing additional guidance to counties, strengthening the steps taken to identify supplanting, and establishing performance outcome measures for the use of enhancement and expansion funds, the department can more readily determine and more clearly demonstrate the extent to which county expenditures of the funds comply with statutes and achieve intended results.

*Department of Administrative Services: Statewide Financial Management Application – Data Integrity Audit Follow Up (No. 2007-28), December 7, 2007* The purpose of this audit was to follow up on the findings and recommendations in Report No. 2004-23, Department of Administrative Services: Statewide Financial Management Application—Data Integrity Audit. The prior audit questioned the availability of agency source documentation to support transactions in the Statewide Financial Management Application (SFMA) and the accuracy of certain data fields in SFMA. As a result, we recommended the Department of Administrative Services (department) define in policy the specific financial information that must be documented and retained in order for supporting documentation to be considered adequate. In December 2004, the department implemented a policy outlining minimum documentation requirements for accounting transactions by state agencies. The policy identified specific fields of data to be included in the documentation, adequate supporting information for system-generated transactions, and references to specific sections of the Oregon Revised Statutes and Oregon Administrative Rules regarding records retention. For this audit, we tested a sample of 403 transactions entered into SFMA by 39 state agencies and found that 395 (98 percent) were adequately supported. The remaining 8 transactions represented transactions from the Employment Department's application for allocating costs to various cost centers. The Employment Department could not provide documentation that fully supported these transactions.

*Department of Administrative Services: Statewide Financial Management Application Computer Controls Review (No. 2007-31), December 20, 2007* The Department of Administrative Services' (department) State Controller's Division provides centralized accounting and reporting services and is responsible for operation and control of the Statewide Financial Management Application (SFMA). Most state agencies use the Relational Statewide Accounting and Reporting System (R\*STARS), a sub-system within SFMA, as their primary general accounting application. In addition, the department uses R\*STARS data to prepare the Comprehensive Annual Financial Report (CAFR) for the State of Oregon. Our specific audit objectives were to evaluate R\*STARS controls governing data integrity, program modifications, system security, and backup and restoration processes. We found that:

- application controls provided reasonable assurance that R\*STARS data would remain complete, accurate and valid;

- because final technical reviews of program modifications and their subsequent elevation to production were performed by the programming group who made the changes, department managers did not have full assurance that only appropriate changes were made;
- backup tapes of critical SFMA files were created at the State Data Center on a regular basis, but those tapes were not periodically tested for usability;
- timely restoration of SFMA in the event of a major disruption could be problematic because the department did not have a defined and tested recovery plan; and
- logical access controls provided reasonable assurance that system files and data were protected against unauthorized use, disclosure, modification, damage or loss.

*Oregon Public Utility Commission: Residential Services Protection Fund Surcharge Reporting and Remittance Can Be Improved (No. 2008-17)* The purpose of our audit was to determine whether the Oregon Public Utility Commission (PUC) ensured that telecommunication providers reported and remitted all calendar year 2006 Residential Services Protection Fund (RSPF) surcharge revenue to which the state was entitled. The PUC administers three telephone assistance programs. One helps individuals with low incomes pay their telephone bills. Another program loans specialized telephone equipment to people with hearing, vision, speech, or mobility impairments. The third program assists individuals who are deaf, hard of hearing or speech impaired by relaying messages verbally or over a text telephone to the hearing parties to whom they are communicating. The three programs are funded by a monthly surcharge of up to \$.35 per telecommunication access line, which goes into the RSPF. Our analysis of PUC and Oregon Department of Revenue (DOR) tax records showed that the state could be entitled to as much as \$18,800 in additional RSPF revenue for the last quarter of 2006. Furthermore, our analysis using Federal Communications Commission (FCC) data suggests as much as \$110,000 more in RSPF revenue may have gone unreported during the fourth quarter of 2006. Finally, we found that some VoIP and prepaid wireless providers did not believe their customers were subject to paying the RSPF surcharge, even though other VoIP providers did pay it. According to the Oregon Department of Justice, PUC's authority to impose RSPF charges on VoIP customers is unclear under current Oregon statutes. While PUC has not needed to rely on revenues from VoIP and prepaid wireless customers, if current trends continue and more people shift away from traditional service to these emerging technologies, RSPF revenue could decrease to a level that would impact PUC's ability to maintain the RSPF programs. When we examined the reasons for the uncollected surcharges, we found that PUC could improve its process for ensuring that amounts it receives are complete and that all providers are complying with RSPF reporting and remittance requirements. This includes increasing its use of available information to improve compliance and educating the providers and the public about entities that are exempt from paying the RSPF surcharge. During the course of our audit, PUC reported several actions it took to improve the RSPF reporting and remittance process. For example, it revised the remittance process and the filing instructions, and educated providers on the RSPF surcharge requirements.

*Department of Administrative Services: Smart Buy Program Review (No. 2008-19)* Our audit objective was to determine whether there were opportunities for additional savings under the Smart Buy program through improved management practices. We reviewed the extent to which the Department of Administrative Services (department) had implemented at least one procurement strategy for each commodity category identified as having high savings potential; whether greater utilization of Smart Buy contracts during fiscal year 2006 would have led to significant additional savings; and state agencies' success at earning office supply rebates under the Smart Buy contract during fiscal year 2006. We did not find significant opportunities for additional savings from greater utilization of

Smart Buy contracts or increased efforts in pursuing recommended commodity categories. However, we found the state could attain additional savings by earning available rebates from one Smart Buy vendor, OfficeMax. Specifically, the state earned less than 30 percent of the fiscal year 2006 rebates available for either paying invoices within 10 days or making payments by electronic funds transfer (EFT). Personnel at several agencies mentioned they were unaware of the available rebates. Moreover, the department did not have procedures in place to monitor whether agencies were earning available rebates. Lastly, the department had not yet updated the state's accounting system with the appropriate vendor account information to allow agencies to issue the vendor EFTs. The state could have earned an additional \$111,000 by earning at least 75 percent of the available prompt payment and EFT rebates.

*Oregon Parks and Recreation Department: Follow-up Report on Capital and Non-capital Assets (No. 2008-20)* The purpose of this audit was to determine whether the Oregon Parks and Recreation Department (department) had implemented 13 recommendations made in an earlier audit report, Oregon Parks and Recreation Department: Capital and Non-Capital Assets (Secretary of State Audit Report No. 2003-26). The previous audit was conducted to determine whether the department had adequate controls in place over capital and non-capital assets and complied with applicable state policies. The department has made some improvements in controls over capital and non-capital assets to help ensure state assets are accurately and properly recorded and asset records comply with state policy. Of 13 prior audit recommendations, three were implemented, three were partially implemented, six were not implemented, and one was deemed no longer relevant.

*Department of Administrative Services: State Data Center Review (No. 2008-21)* The Department of Administrative Services (department) is responsible for providing centralized services to state agencies, including computer networks and processing infrastructure. During 2005, the Oregon State Legislature approved funding for the Computing and Networking Infrastructure Consolidation (CNIC) project to consolidate 12 state agency data centers into one facility. The primary purpose of this audit was to evaluate the status of the department's efforts to reengineer the State Data Center (SDC) environment to achieve CNIC project objectives. In addition, because of the criticality of SDC operations, we also evaluated controls governing the current SDC computing environment. Based on our audit work we found:

- important data center consolidation objectives have not yet been achieved and as a result, it is unlikely that the anticipated savings or operational benefits associated with the CNIC project, such as enhanced enterprise disaster recovery and security solutions, will occur;
- operational controls did not sufficiently address service level agreements with customers, performance and capacity management, standard operating procedures, configuration management, or software licensing requirements;
- the department was ill-prepared to timely resume data center operations or assist agencies in their efforts to restore critical computer applications after a major disruption; and
- the department had not provided a secure computing environment for SDC clients.

*Department of Human Services: Interpretive Services Audit (No. 2008-22)* The objective of this audit was to determine if payments the Department of Human Services (department) made to interpretive and translation vendors were reasonable, were backed by support showing the services paid for were actually provided, and complied with contract terms. To ensure people can effectively participate in or benefit from the programs it administers, the department provides interpretive and translation services. In

fiscal year 2006, the department paid approximately \$928,000 to vendors for these services. The department made some vendor payments we considered unreasonable. Specifically, we found the department made \$12,800 in duplicate payments to one interpretive vendor and paid a department employee as a vendor for services she performed while on paid sick leave. We also found that, for payments totaling approximately \$129,600, the department could not provide adequate supporting documentation to show that all services it paid for were actually provided. Further, one telephone-based interpretive vendor's invoices lacked the required connection time information needed to assess the appropriateness of charges. Lastly, department payments generally complied with contract terms relating to rates and required services.

*Secretary of State: Government Waste Hotline January–December 2007 (No. 2008-23)* 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 we received during the period January 1, 2007, through December 31, 2007.

*Department of Human Services: Integrated Information System Application Controls Review (No. 2008-24)* The purpose of this audit was to evaluate the effectiveness of key general and application computer controls governing the Oregon Department of Human Service's (department) Integrated Information System (system). Our specific audit objectives were to determine whether the department implemented processes to reasonably ensure system data integrity, backup and restoration, program change management, and logical access control. We found:

- automated and manual application controls did not reasonably ensure all transaction data would be complete, accurate, or valid;
- it is unlikely that the department could timely restore the system in the event of a disaster or major disruption because it did not have a defined backup strategy, system restoration plan, or service level agreement with the State Data Center;
- Department staff did not always follow appropriate program change management procedures or ensure that important quality assurance steps occurred;
- logical access controls did not adequately protect the system and its data from unauthorized use, disclosure, modification, damage, or loss.

Also, because of the sensitive nature of system security, we issued a separate confidential report outlining specific details of our security findings, as well as recommendations to improve security.

*Oregon Board of Dentistry: Internal Control Review (No. 2008-25)* This audit was conducted to determine if the Oregon Board of Dentistry (board) had established effective internal controls to safeguard assets and ensure compliance with state laws, rules and policies relating to cash handling, payroll, contracting, travel, and procurement of goods and services. We limited our review to key procedures that existed and transactions that occurred from July 1, 2005, through December 31, 2007. Under an interagency agreement, the Department of Human Services (department) provides the board with budgeting, cash receipting and depositing, and accounting services. The department's controls were generally effective for safeguarding the board's assets and ensuring transactions were properly and accurately recorded. The board also generally had controls to safeguard assets and ensure compliance with policies governing payroll and procurement. However, we identified some instances where the board could improve controls over cash handling and contract monitoring. In addition, the board could improve

compliance with state travel policies. Finally, we identified cost savings the board could potentially realize in relation to ground travel.

*Department of Administrative Services: Oregon State Payroll Application Computer Controls Review (No. 2008-28)* The Department of Administrative Services (department) provides centralized payroll services to state agencies. The department's State Controller's Division provides centralized accounting and reporting services and is responsible for operation and control of the Oregon State Payroll Application (system). The system processes payroll for over 36,000 state employees each month. The purpose of this audit was to evaluate the effectiveness of computer controls governing data integrity, program modifications, backup and restoration processes, and system security. We concluded:

- application controls provided reasonable assurance that system data, as input by agencies, would remain complete, accurate, and valid;
- system development and change management procedures were adequate, but could be improved;
- the system and its data were reasonably protected against unauthorized use, disclosure, modification, damage or loss, but the system was at increased risk of compromise because of security weaknesses at the State Data Center;
- the department did not have assurance that backup tapes were viable or stored off-site; and
- timely or successful restoration of the system in the event of a major disruption would likely be problematic because the department did not have a complete disaster recovery plan, including a written agreement with the State Data Center clarifying disaster recovery roles, responsibilities, requirements or expectations.

*Department of Administrative Services: Statewide Financial Management Application Computer Controls Review (No. 2008-29)* The Department of Administrative Services (department) provides centralized services to state agencies, including maintenance of computer networks and operation of the State Data Center. The department's State Controller's Division provides centralized accounting and reporting services and is responsible for operation and control of the Statewide Financial Management Application (SFMA). Most state agencies use the Relational Statewide Accounting and Reporting System (R\*STARS), a sub-system within SFMA, as their primary general accounting application. State agencies also rely on R\*STARS data contained in the state Data Mart for ad hoc reporting. In addition, the department uses R\*STARS data to prepare the Comprehensive Annual Financial Report (CAFR) for the State of Oregon. The SFMA and Data Mart are currently hosted at the department's State Data Center. The purpose of this audit was to evaluate the effectiveness of selected general and application computer controls governing the department's R\*STARS implementation. This is an annual audit performed in support of our audit of the state's CAFR. We found:

- application controls provided reasonable assurance that system data agencies input would remain complete, accurate and valid, and those controls also reasonably assured that the Data Mart would accurately represent information contained in R\*STARS transaction files;
- department procedures ensured that system modification requests were appropriately prioritized, authorized, assigned, documented, tracked and tested;
- system managers did not have assurance that backup tapes were viable or were stored off-site and the department did not have adequate procedures for restoring the system in the event of a disaster or major disruption; and

- Logical access controls provided a vital layer of security to reasonably protect the system, but the system was at increased risk of compromise due to security weaknesses at the State Data Center.

*Department of Forestry and State Lands: Review of Common School Fund Forest Land Management Costs (No. 2008-32)* The purpose of this audit was to determine whether costs the Department of Forestry (Forestry) charged for management of Common School Fund (CSF) forest lands were reasonable and in compliance with the Interagency Agreement between the Department of State Lands (State Lands), Forestry and State Land Board. Revenues from the sale and management of some state-owned rangelands, forest lands, waterways and other types of lands are dedicated to the Common School Fund (CSF), with earnings distributed to Oregon's public schools. The CSF is managed by the State Land Board, with State Lands serving as its administrative arm. State Lands has an agreement with the Forestry for the management of approximately 124,000 acres of CSF forest lands. In exchange, State Lands pays a portion of Forestry's administrative and program costs. We identified \$432,000 in estimated overcharges Forestry billed to State Lands. The overcharges fell into two categories—administrative and program. We identified an estimated \$333,000 in administrative overcharges that occurred because Forestry used an outdated cost study to allocate administrative costs. Forestry management told us they did not use a more recent cost study because the funds needed for implementation did not receive legislative approval. We also found errors in program charges for personal services, services and supplies, and capital outlay that occurred during the 18-month period beginning in July 2005. We identified approximately \$99,000 in net overcharges for these costs. Several of the overcharges occurred because some Forestry offices used an inaccurate allocation basis or omitted activities from the allocation process. The other overcharges resulted from a variety of factors, such as spreadsheet formula errors. Forestry's accounting records do not identify whether a program charge is direct or indirect. This made it impractical for us to calculate the total overcharge to the CSF. Therefore, the \$99,000 in estimated net program overcharges could be understated. Forestry also lacked written procedures over the allocation process and did not regularly monitor the process to ensure accuracy.

*Multnomah Education Service District: Contracting Practices (No. 2008-33)* The purpose of our audit was to determine whether Multnomah Education Service District's (MESD) contracting and intergovernmental agreement practices were in accordance with contracting laws, best practices and MESD policies. MESD had recently undergone organizational and staffing changes, and expressed a desire to have its contracting practices evaluated. MESD's contracting practices used to procure short-term goods and services were generally in accordance with contracting laws, best practices and MESD policies. However, we identified opportunities for MESD to improve its contracting practices for personal services contracts, leases, multi-year contracts for goods and services, and intergovernmental agreements. Specifically, our recommendations address such areas as contractor selection, contract development and contract management.

*Department of Fish & Wildlife: Follow-up Report on Capital and Non-capital Assets (No. 2008-34)* The purpose of this audit was to determine whether the Oregon Department of Fish and Wildlife (department) had implemented nine recommendations made in a prior audit report, Oregon Department of Fish and Wildlife: Capital and Non-Capital Assets (Secretary of State Audit Report No. 2004-26). The previous audit was conducted to determine whether the department had adequate controls in place over capital and non-capital assets and complied with applicable state policies. The department has made some improvements in controls over capital and non-capital assets to help ensure state assets are accurately and properly recorded and asset records comply with state policy. However, the department could further improve controls. Of nine prior audit

recommendations, four were implemented, four were not implemented, and one was considered no longer relevant. In addition, we found that the department was incorrectly calculating depreciation for several assets and not recording and depreciating all federally-funded assets in accordance with generally accepted government accounting standards.

*Oregon Youth Authority: Oversight of Basic and Diversion Services Funds (No. 2008-39)*  
The purpose of our audit was to determine whether the juvenile departments at four selected counties expended basic services and diversion funds for the 2005-07 biennium in accordance with intergovernmental agreements, which incorporate state laws and rules. The state provides various types of grant funding to Oregon counties for juvenile justice purposes. Basic services funds are used for detention and other juvenile department services; diversion funds are for services intended to keep youth from being placed in youth correctional facilities; and prevention funds are for services that meet the needs of youth who have specific risk factors and demonstrate at-risk behavior. The Oregon Youth Authority (Youth Authority) administers the basic and diversion funds through an intergovernmental agreement (agreement) with the counties. The four counties in our audit, Marion County, Polk County, Wasco County and Tillamook County, expended more than \$1.0 million in basic services funds and more than \$.8 million in diversion funds for the 2005-07 biennium. We did not include the juvenile crime prevention funds in the audit. Statute requires that counties create and maintain a plan that identifies juvenile crime prevention services and other services they intend to provide. The agreement requires that basic and diversion priority services are also included in the plan. In addition, each biennium, the Youth Authority reviews and approves a budget for the basic services and diversion grants. To amend the budget, counties must notify the Youth Authority and, under certain conditions, obtain Youth Authority approval. We found that County Juvenile Departments did not always expend basic services and diversion funds in accordance with intergovernmental agreements. Specifically, two counties used basic services and diversion funds to pay for services not identified in the plan; one county did not notify the Youth Authority of changes made to the grant budget; two counties did not provide the required intermediate outcome targets for their use of basic services funds, and none of the four counties reported actual outcome results. We also found that none of the four counties had a process to ensure state funds did not supplant county juvenile funding and two of the four counties did not maintain adequate accounting records to identify the actual grant expenditures for which they requested reimbursement. Given our findings, the Youth Authority cannot readily determine and demonstrate whether the basic services and diversion funds were spent in accordance with, and achieved the purpose of, the grants.

*Measure 66 Funding: Financial Integrity, Effectiveness and Performance for the 2005-2007 Biennium (No. 2008-40)*  
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. Our specific objectives for OPRD and ODFW were to determine whether the agencies had appropriate mechanisms to report on their use of Measure 66 funds; whether agencies that reported Measure 66 funded activity provided accurate information; and whether agencies had established and followed policies that promoted prudent stewardship of Measure 66 funds. The specific purposes of our financial integrity review were to determine whether agencies that received Measure 66 funds from the Restoration and Protection Subaccount (Subaccount) spent those funds in compliance with constitutional restrictions and appropriately recorded those transactions; whether all interest earned on money in the Subaccount was deposited in the Restoration and Protection Research Fund (Research Fund); determine whether the Measure 66 funds agencies spent from the Subaccount and the 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.

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 had yet to receive.

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 Western Oregon Stream Restoration programs. In addition, ODFW did not always classify capital expenditures consistently with governing guidance, although all expenditures were for uses allowed by Measure 66.

The Oregon Department of Agriculture (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. The Oregon State Police, Department of Environmental Quality and Oregon Watershed Enhancement Board expended their Measure 66 funds for the 2005-2007 biennium substantially in compliance with the state constitution and properly recorded those expenditures. We reviewed account statements from the Oregon Treasury Department and determined that during the 2005-2007 biennium interest earned on money in the Subaccount was properly deposited to the Research Fund.

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 Subaccount and the 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.

*Department of Corrections: Automated Financial Accounting Manufacturing Inventory System Computer Controls Review (No. 2008-41)* The Department of Corrections (department) was established by the Oregon Legislature in 1987. The department uses the Automated Financial Accounting Manufacturing Inventory System (system) as its main financial computer application. The system is currently hosted at the Department of Administrative Services State Data Center. Our specific audit objectives were to evaluate controls governing data integrity, program modifications, backup and restoration processes, and system security. We found:

- application controls provided reasonable assurance that information entered into the system would remain complete, accurate, and valid;
- the department had not fully implemented formal change management procedures, applied System Development Life Cycle (SDLC) methodologies to appropriately

address pending system obsolescence issues, or assigned a system owner responsible for making important system development decisions;

- department staff ensured regular backup tapes of critical system files were created, but the department did not have a comprehensive plan for restoring the system in the event of a disaster (missing was a written service level agreement with the State Data Center clarifying each party's disaster recovery roles, responsibilities, and requirements); and
- security control weaknesses increased the risk that the system and its data could be compromised.

*Oregon Parks and Recreation Department: Loss of Funds Investigation and Internal Controls Review at the Oregon State Fair and Exposition Center (No. 2009-03)* The purposes of this audit were to investigate a potential fraud at the Oregon State Fair and Exposition Center (OSFEC) and to review OSFEC internal controls. In October 2005, the Oregon Parks and Recreation Department (department) requested that the Audits Division review internal controls at the OSFEC in preparation for its transfer to the department. Subsequently, in November 2005, we received allegations that an OSFEC employee had diverted client payments to a personal bank account. In July 2006, we communicated information relating to the missing funds to the Marion County District Attorney's Office. In January 2008, the employee was convicted of three counts of first-degree aggravated. Our initial review substantiated the allegations of potential fraud and resulted in a joint investigation with the Oregon State Police. We determined that, from March 2001 through March 2006, the employee diverted approximately \$78,000 in state funds and approximately \$16,000 in private funds. Our audit of the OSFEC's internal controls revealed that the OSFEC had not established sound accounting policies or program controls, which could have helped prevent and detect the misappropriation of funds. During summer 2008, we performed supplemental work to determine whether the OSFEC's controls relating to segregation of duties, cash, and event billing processes had improved. We found that although the OSFEC had improved controls over these processes, more work remained to be done.

*Department of Administrative Services: Enterprise Security Office Review (No. 2009-05)* The Department of Administrative Services (department) is the central administrative agency of Oregon state government. In 2005, the legislature enacted Oregon Revised Statute (ORS) 182.122 giving the department responsibility and authority for information systems security in the executive department. Department management assigned primary responsibility for compliance with this statute to its Enterprise Security Office (ESO). The ESO operating budget for the 2007-2009 biennium was approximately \$11.3 million. The objectives of this audit were to evaluate the ESO's progress in fulfilling the requirements of ORS 182.122 and determine whether it appropriately managed the enterprise infrastructure projects it undertook. We found that the department implemented forensic techniques and controls and developed policies and plans for responding to security incidents. However, the department had not developed complete security plans and associated standards, policies, and procedures; conducted vulnerability assessments of agency information systems; reviewed or verified the security of information systems; or ensured remedial actions were undertaken to resolve identified security issues. As a result, the department had not fully complied with the statutory mandate to establish an enterprise security system or program to protect the availability, integrity or confidentiality of the state's information systems. The department also did not appropriately manage its project to implement centralized Identity and Access Management or its project to issue digital certificates. As a result, it is unlikely the state will realize appreciable security benefit from the approximately \$14 million the ESO spent on these projects.

*Department of Administrative Services: Statewide Financial Management Application: Accounting System Continues to be Reliable, but Security and Disaster Recovery Risks Remain (No. 2009-09)* The Department of Administrative Services (department) provides centralized services to state agencies including operation and control of the Statewide Financial Management Application (SFMA) and its Relational Statewide Accounting and Reporting System (system). Most state agencies use the system as their primary general accounting application and as the basis for statewide financial reporting. They also rely on system data contained in the department's Datamart for ad hoc reporting. Our specific audit objectives were to evaluate controls governing data integrity, program modifications, backup and restoration processes, and system security. We found:

- state agencies can rely on the system to accurately process financial transactions and maintain accounting records, and can also rely on the Datamart to accurately reflect detailed accounting transactions the system processes;
- the department appropriately controlled changes to system code by ensuring only authorized changes could be made; these controls were critical to ensure unauthorized program modifications could not be used to render application controls ineffective, or otherwise jeopardize the integrity of the system and its data;
- restoration of the system following a major disruption would likely be problematic because the department did not test its restoration plans and relied on unproven State Data Center capabilities;
- the department did not ensure backup tapes were viable or were transferred off-site as directed; and
- State Data Center weaknesses pose significant security risks because they render logical access controls significantly less effective.

*Department of Administrative Services: Oregon State Payroll Application: Data and Program Integrity Ensured, But Security and Disaster Recovery Controls Inadequate (No. 2009-10)* The Department of Administrative Services (department) provides centralized payroll services to state agencies and is responsible for operating and controlling the Oregon State Payroll Application (system). The system processes payroll for over 38,000 state employees each month. During October 2008 alone, it generated payroll transactions totaling approximately \$227 million. Our specific audit objectives were to evaluate controls governing data integrity, program modifications, backup and restoration processes, and system security. We found that agencies can rely on the system to accurately process employee payroll checks, electronic deposits and other associated transactions. We also found the department appropriately controlled changes to system code by ensuring only authorized changes could be made. These controls were critical to ensure unauthorized program modifications could not be used to render application controls ineffective, or otherwise jeopardize the integrity of the system and its data. Restoration of the system following a major disruption would likely be problematic because the department did not test its restoration plans. They also relied on State Data Center capabilities that likewise were not tested. In addition, the department did not ensure backup tapes were viable or were transferred off-site as directed. Finally, we noted State Data Center weaknesses pose significant security risks because they render logical access controls significantly less effective.

*Oregon Youth Authority: Improvements Needed in Availability and Reliability of Critical Juvenile Justice Information (No. 2009-11)* Oregon's juvenile justice system depends on the work of the Oregon Youth Authority and county juvenile departments to promote effectiveness, accountability, and transparency in the juvenile justice system. To support the goals of the juvenile justice system, the Youth Authority implemented an information system to help decision makers plan and evaluate programs to reduce juvenile crime. We

reviewed this information system and its use in four Oregon counties. We found that, although the system captures useful information, publicly available reports were limited and did not answer many important questions about the juvenile justice system. Because this information is important for informing policy discussions, this lack of publicly available reports is significant. In addition, although the majority of the data we reviewed in the system was reliable, key data on offender requirements, such as restitution and community service, was not consistently reliable. As a result, the Youth Authority, county juvenile departments, and the public lack information useful to promote effectiveness, accountability, and transparency in the juvenile justice system. As part of our work, we answered a number of key questions from stakeholders in the juvenile justice system. We present this information in four appendices, one for each of the counties we reviewed—Marion, Polk, Tillamook, and Wasco.

*Oregon Commission for the Blind: Actions Needed to Ensure Funds Are Used for Client Purposes, Expenditures Are Controlled, and Assets Are Protected (No. 2009-12)* The Oregon Commission for the Blind (commission) provides important services to blind and visually impaired Oregonians that enable them to live and work independently. In March 2007, the Audits Division received allegations that the commission had mismanaged operations and misused funds intended for clients. Our initial review of these matters substantiated several of the allegations and disclosed problems similar to those reported in previous audits of the commission. As a result, we expanded the scope of our audit to determine whether the commission had ensured resources were used for client purposes, expenditures were controlled and assets were adequately protected. We found instances in which the commission did not use funds for client purposes. Specifically, the commission used approximately \$61,000 of public funds for purposes that did not always benefit clients and, in some cases, were not allowed by federal regulations. Furthermore, the commission made some business decisions with little regard for established purchasing and planning processes and did not always ensure client purchases were necessary and reasonable. As a result, we question whether \$1.4 million of additional public funds were used prudently. Finally, we found that due to internal control weaknesses, state assets were not always adequately protected.

*Oregon State Hospital Replacement: Good Construction Management Practices Help Protect State Investment (No. 2009-14)* The Oregon Department of Human Services is in the early stages of constructing two new state psychiatric facilities to replace the outdated Oregon State Hospital. The Oregon State Hospital Replacement Project (OSHRP) is expected to cost approximately \$458 million. Given the large size of this state investment, we performed this audit to provide early feedback on how well the department is controlling project costs and risks. Specifically, we reviewed whether the department has processes to ensure contract payments, amendments and change orders are in line with applicable rules, contract terms and best practices. We also reviewed whether contractor selections were in accordance with public improvement contract laws. We found the department has implemented good contract management practices that should help protect the state's investment by controlling costs and risks. The department performed three main actions that led to its success to date: (1) assembled an experienced project team, (2) established clear expectations with project contractors, and (3) managed contracts to control project costs and risks. We also found that the department selected its contractors in accordance with public improvement contract laws.

*Oregon Secretary of State: Government Waste Hotline January–December 2008 (No. 2009-15)* 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, 2008, through December 31, 2008.

*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 over 125 audit reports, informational reports, and management letters that included numerous recommendations to improve the operation of Oregon state government. With the continued cooperation of government officials and the public, the Audits Division can provide value to the people of Oregon by fulfilling its mission of protecting the public interest and improving Oregon government.*

# **ABOUT THE SECRETARY OF STATE AUDITS DIVISION**

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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.

## **Directory of Key Officials**

Director	Gary Blackmer
Deputy Director	William K. Garber, MPA, CGFM
Deputy Director	Mary Wenger, CPA

This report, a public record, may be obtained from:

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