

# Secretary of State Audit Report

Kate Brown, Secretary of State

Gary Blackmer, Director, Audits Division



## Measure 66 Funding: Fiscal Accountability for the 2007-2009 Biennium

### Summary

In 1998, Oregon voters passed Ballot Measure 66. The measure amended the Oregon Constitution to dedicate 15% of net Lottery proceeds to certain natural resource activities. Since passage, the Measure has directed nearly \$680 million in lottery proceeds toward those activities. For the 2007-2009 biennium, Measure 66 lottery proceeds totaled \$199 million.

Measure 66 funds flow through two subaccounts each of which receive half of these dedicated lottery proceeds. The Restoration and Protection Subaccount funds the protection of native salmonid populations, watersheds, fish and wildlife habitat, and water quality in Oregon. The state constitution also requires that at least 65% of expenditures from this subaccount be capital rather than operating. The Parks Subaccount funds the protection, repair, operation, creation and development of state parks, ocean shore and public beach access areas, historic sites and recreation areas.

In the 2007-2009 biennium, seven state agencies received Measure 66 funds either directly or through legislative action. Statutes designate the Oregon Watershed Enhancement Board (OWEB) as the agency responsible for administering Measure 66 funds distributed through the Restoration and Protection Subaccount. In addition, the Oregon Legislature directed that five other agencies receive Measure 66 allocations from this subaccount. Those agencies were: the Oregon Department of Fish and Wildlife (ODFW), Oregon Department of Agriculture (ODA), Oregon State Police (OSP), Oregon Department of Environmental Quality (DEQ), and Oregon Department of Geology and Mineral Industries (DOGAMI). In contrast, the Oregon Parks and Recreation Department (OPRD) was the only state agency that received Measure 66 funds distributed through the Parks Subaccount.

Our audit had three objectives:

- determine the extent to which cumulative Measure 66 expenditures from the Restoration and Protection Subaccount comply with the 65% capital expenditure requirement;
- determine whether agencies receiving Measure 66 funds from the Restoration and Protection Subaccount have adequately accounted for any carry-forward funds; and

- assess the corrective actions agencies have taken to address recommendations outstanding from our prior audit of Measure 66 funds.

The end of the 2007-2009 biennium marked the first time in the five Measure 66 audits we have completed that the state met the capital threshold for cumulative expenditures from the Restoration and Protection subaccount. Through the end of the biennium, capital expenditures represented just over 65% of the cumulative expenditures from the subaccount. This assumes that the \$42.5 million of remaining OWEB capital expenditure authority is actually expended.

In addition to collectively meeting the 65% capital expenditure requirement, state agencies also adequately accounted for funds they carried forward from one biennium to the next. We defined carry-forward as the difference between what the agency could have spent and what it did spend. Although agencies adequately accounted for carry-forward funds, interest earned on these funds was not always credited to accounts dedicated to Measure 66 activities. The Oregon Supreme Court has consistently held that where the constitution creates a fund for particular purposes, interest earnings on that fund may only be used for those purposes. We estimate that about \$161,000 in interest was not credited to a Measure 66 account during the 2007-2009 biennium.

Last, we found that state agencies had initiated or implemented corrective action to address most of the audit recommendations noted in our prior audit of Measure 66 funds. Of the 12 recommendations included in the audit report and related management letters, 9 were resolved and 3 had corrective action in process.

## Recommendations

**We recommend** that OSP, DEQ, ODFW and ODA work with OWEB and the Department of Administrative Services (DAS) to ensure that interest earned on Measure 66 allocated funds is credited to accounts dedicated to Measure 66 activities.

**We further recommend** these agencies work with OWEB and DAS to estimate the cumulative interest earnings lost over prior biennia and explore potential actions to obtain reimbursement.

## Other Matter

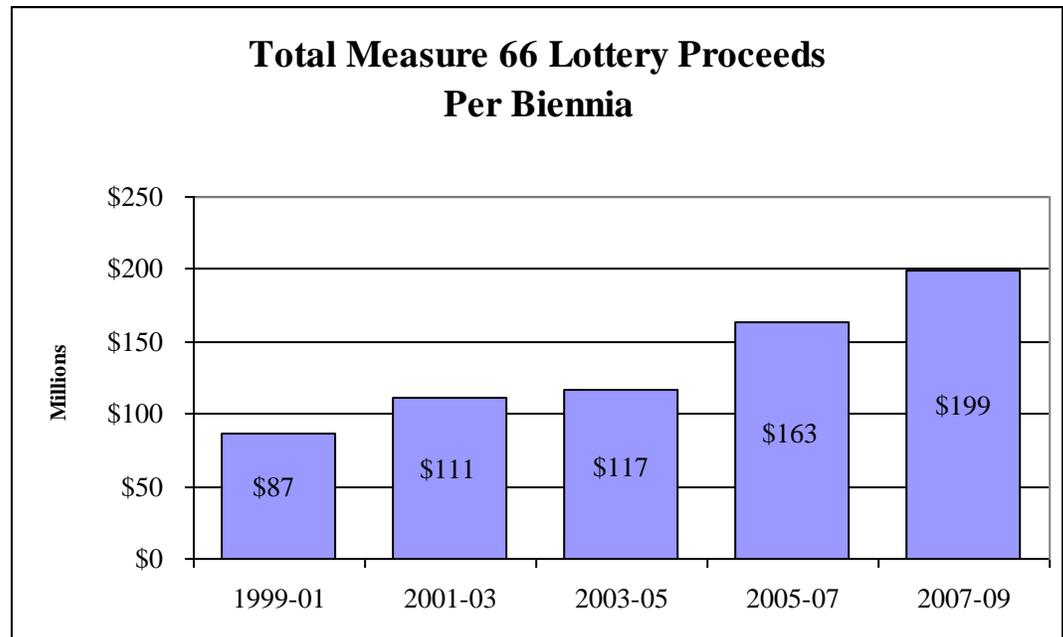
Our prior audit report on the use of Measure 66 funds withheld judgment on certain expenditures the state legislature authorized for the State Fair and Exposition Center. Because these expenditures did not clearly fall within the allowed uses of Measure 66 funds described in the Oregon Constitution, we sought an opinion from the Oregon Attorney General. Three months after the release of the prior report, the Attorney General issued a formal opinion that indicated use of Measure 66 funds for current State Fair operations and debt service on the 1999 State Fair bonds is consistent with the constitutionally permissible purposes of Measure 66 funds.

## **Agency Responses**

Agency responses are attached at the end of the report.

## Background

In 1998, Oregon voters passed Ballot Measure 66. The measure amended the Oregon Constitution to dedicate 15% of net Lottery proceeds to certain natural resource activities. Since passage, the Measure has directed nearly \$680 million in lottery proceeds toward those activities. As shown in the chart below, Measure 66 lottery proceeds grew from about \$87 million in the 1999-2001 biennium to \$199 million in the 2007-2009 biennium. This represents a 129% increase over the five biennia Measure 66 has been in effect.



Measure 66 funds flow through two subaccounts. The Restoration and Protection Subaccount and Parks Subaccount each receive half of these dedicated lottery proceeds. The Restoration and Protection Subaccount funds the protection of native salmonid populations, watersheds, fish and wildlife habitat, and water quality in Oregon. The Parks Subaccount funds the protection, repair, operation, creation and development of state parks, ocean shore and public beach access areas, historic sites and recreation areas.

In addition to identifying allowed uses of Measure 66 funds, the state constitution also requires that at least 65% of expenditures from the Protection and Restoration Subaccount be capital rather than operating. Oregon Revised Statutes (ORS) 541.351(4) governs the use of the subaccount, and describes capital expenditures as:

1. 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

2. projects that restore, enhance or protect fish and wildlife habitat, watershed functions, native salmonid populations or water quality.

During the 2007-2009 biennium, six agencies received Measure 66 funds from the Restoration and Protection subaccount. Those agencies included the Oregon Watershed Enhancement Board, Oregon Department of Fish and Wildlife, Oregon Department of Agriculture, Oregon State Police, Oregon Department of Environmental Quality, and the Oregon Department of Geology and Mineral Industries. The following table summarizes the Measure 66 expenditures for those agencies.

**2007-2009 Expenditures from the Restoration and Protection Subaccount  
(Millions of Dollars)**

**Oregon Watershed Enhancement Board**

Operations	\$14.0
Grants	\$39.0
Research	\$2.2

**Oregon Department of Fish and Wildlife**

Fish Screens and Passages	\$5.8
Conservation and Recovery	\$4.7
Western Oregon Stream Restoration	\$1.4

**Oregon Department of Agriculture**

Water Quality Management	\$3.7
Weed and Pest Control	\$6.0
Administration	\$0.3

**Oregon State Police**

Fish and Wildlife Enforcement	\$5.9
Motor Vehicles/Aircraft	\$0.8

**Oregon Department of Environmental Quality**

Water Quality Monitoring	\$5.4
Lab Equipment	\$0.3

**Oregon Department of Geology and Mineral Industries**

LIDAR Data Collection	\$1.5
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Oregon Watershed Enhancement Board (OWEB)

OWEB used Measure 66 funds to promote and implement programs to restore, maintain, and enhance watersheds in Oregon. As part of that effort, OWEB distributed grants to fund various projects, provided technical assistance, and compiled information available to various stakeholders. In addition, ORS 541.377(5) designates OWEB as the agency that administers the Measure 66 funds deposited in the Restoration and Protection Subaccount. In that role,

OWEB transferred to other state agencies amounts allocated by the Oregon Legislature from the subaccount, established spending agreements with those agencies, and monitored the use of funds. Agencies that receive money from the Restoration and Protection Subaccount reported to OWEB about their use of Measure 66 funds. Below is a summary of how agencies used M66 funds.

#### Oregon Department of Fish and Wildlife (ODFW)

ODFW used Measure 66 funds for the three programs described below.

- The Fish Screening and Passage Program provided financial and technical assistance for designing and installing fish screens and passage improvements. Fish screens help prevent fish mortality and injury at water diversions. Passage improvements are fish ladders that facilitate fish's natural migration. Measure 66 funds supported the design and actual construction of screens and passage improvements, as well as personnel costs associated with those efforts.
- The Conservation and Recovery Program collected and analyzed data on the success and failure of the Western Oregon Stream Restoration Program, and coordinated the development of conservation plans for native fish. Measure 66 funds supported personnel costs for program researchers and operating expenses.
- The Western Oregon Stream Restoration Program provided direct technical support to watershed councils and private landowners in western Oregon directing the restoration and enhancement of Oregon's salmonid habitats.

#### Oregon Department of Agriculture (ODA)

ODA used Measure 66 funds to support the operating costs of two divisions. The Natural Resource Division worked 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 division also worked with Confined Animal Feeding operators to improve compliance with water quality regulations. In addition, ODA's Plant Division focused on detecting and eradicating exotic insect pests, weeds, and plant diseases.

#### Oregon State Police (OSP)

OSP used Measure 66 funds to pay for officers charged with enforcing fish, wildlife, and habitat protection laws. OSP also used Measure 66 funds to purchase motor vehicles for use in these enforcement activities.

#### Oregon Department of Environmental Quality (DEQ)

DEQ used Measure 66 funds primarily for water quality monitoring activities that support watershed restoration, including activities directly related to the Oregon Plan for Salmon and Watersheds. The Oregon Plan's mission is to restore Oregon watersheds and recover the fish and wildlife populations of those watersheds to productive and sustainable levels in a manner that provides

substantial environmental, cultural and economic benefits. DEQ also used Measure 66 funds to purchase laboratory equipment.

#### Oregon Department of Geology and Mineral Industries (DOGAMI)

The 2007-2009 biennium marked the first time the Legislature authorized use of Measure 66 funds by DOGAMI. DOGAMI used the funds to help pay for acquiring Light Detection and Ranging (LIDAR) mapping data for various areas in Oregon. LIDAR is similar to radar but uses rapid pulses of light energy particles instead of radio waves. LIDAR surveys collect extensive quantities of three-dimensional point data that are correct within a few inches of their true elevation. Uses of LIDAR surveys include stream structure, fish passage and riparian and wetland mapping and restoration design.

#### Oregon Parks and Recreation Department (OPRD)

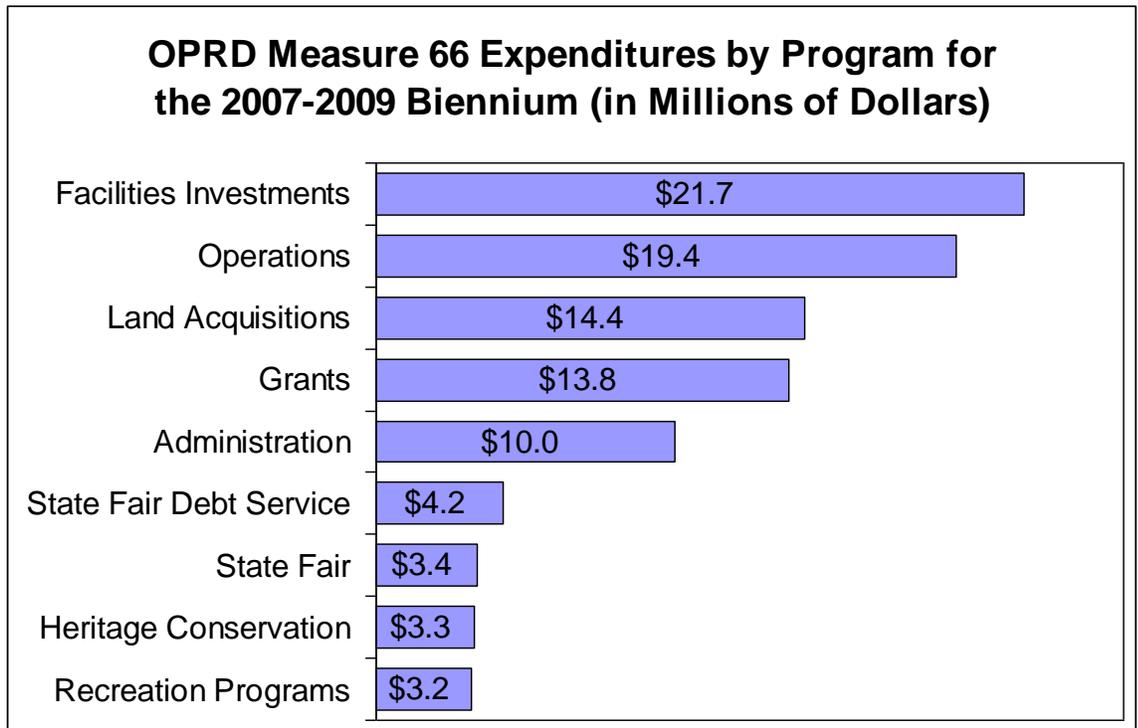
OPRD did not receive funds from the Restoration and Protection Subaccount and was the only state agency that received funds from the Parks Subaccount. It used Measure 66 funds to support the following programs:

- Operations: This program has responsibility for the daily operation of the state park system. It provides staff and services needed to manage and operate all of Oregon's state park properties.
- Administration: The Administration program funds OPRD's centralized business functions. It includes six divisions: the Director's Office, Human Resources, Financial Services, Procurement, Information Systems, and Reservations.
- Land Acquisitions: This program purchases new park properties. Since 1999, OPRD has acquired a total of 6,012 acres of property through direct purchase and donation. The program has a goal of 35 acres of park property for every 1,000 Oregon citizens.
- Facilities Investment: This program was established to begin a long-term investment in park infrastructure. Measure 66 funding has helped reduce the backlog of repairs and deferred maintenance.
- Grants: OPRD administers several grant programs. However, the Local Government Grant program was the only program that used Measure 66 funds. It provided funds to local governments for outdoor recreation projects such as hiking trails, playgrounds, and skate parks.
- Heritage Conservation: This program's primary responsibility is to coordinate heritage activities in Oregon. Program activities include managing and administering all federal and state programs for historic and archeological resource planning and preservation, and preserving tribal and pioneer-era cemeteries throughout Oregon.
- Recreation Programs: This program is responsible for planning, implementation, and outreach of outdoor recreation in Oregon. Program

activities include planning for future recreational needs, and educating visitors about the natural resources, history, and culture of the areas surrounding the parks.

- **State Fair:** The Oregon State Fair conducts an annual fair that is typically 11 days in length. It also provides services for ongoing exposition activities including recreational vehicle and organization meetings, concerts, and consumer products and services shows. The purpose of the State Fair is to provide information and encourage the growth and prosperity of all agricultural, stock raising, horticultural, mining, mechanical, artistic, and industrial pursuits in the state.
- **State Fair Debt Service:** This program pays the principal and interest on capital construction and improvement bonds.

OPRD spent about \$93 million in Measure 66 funds during the 2007-2009 biennium. The chart below depicts the breakdown of OPRD’s expenditures by program.



The Oregon Constitution currently requires the legislature to submit to a vote of the people, at the November 2014 general election, the question of whether the amendment resulting from Measure 66 be continued. However, an initiative for a constitutional amendment filed with the Elections Division of the Oregon Secretary of State in December 2009, if passed, would change various operational and administrative aspects of the current measure.

This is the fifth audit report the Oregon Audits Division has issued on the use of Measure 66 funds. The audit focused primarily on expenditures from the

Restoration and Protection Subaccount. The objectives of the audit were to determine the extent to which cumulative Measure 66 expenditures from the Restoration and Protection Subaccount complied with the 65% capital expenditure requirement; determine whether agencies receiving Measure 66 funds from the Restoration and Protection Subaccount adequately accounted for any carry-forward funds; and assess corrective actions agencies have taken to address audit recommendations still outstanding from our prior Measure 66 audit.

## Audit Results

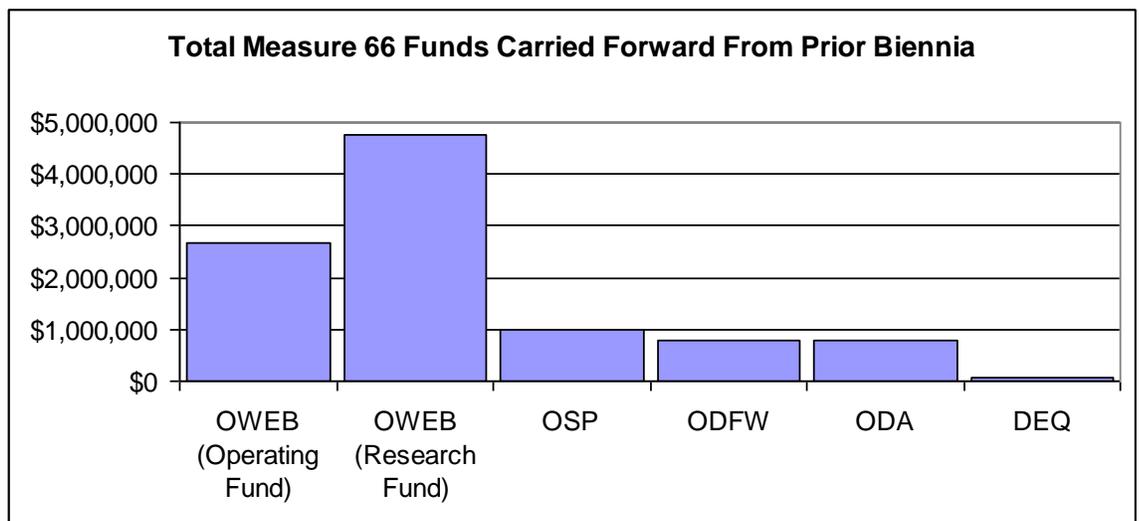
### The State Met the Capital Expenditure Threshold for the First Time

The state constitution requires that at least 65% of the Restoration and Protection Subaccount funds be used for capital expenditures. The end of the 2007-2009 biennium marked the first time in the five audits we have completed that the state met the threshold for cumulative expenditures. Through the end of the biennium, capital expenditures and remaining expenditure authority represented just over 65% of the projected cumulative expenditures from the Restoration and Protection Subaccount. This assumes that OWEB uses its remaining \$42.5 million capital expenditure authority, which allows six years from the beginning of the biennium for the funds to be expended. Through the end of the biennium, actual cumulative capital expenditures totaled \$179 million. Cumulative operating expenditures totaled \$117.5 million.

### Agencies Accounted for Funds Carried-Forward, but Interest Earned Was Not Properly Credited

Each biennium the Legislature authorizes selected state agencies to expend Measure 66 funds. OWEB, as administrator of the program, allocates the funds as prescribed by the Legislature. For purposes of our audit, we defined carry-forward as the difference between the amount of Measure 66 funds an agency could spend and the amount they actually spent. As of the end of the 2007-2009 biennium, carry-forward funds totaled \$10 million. We found that state agencies with carry-forward balances adequately tracked and accounted for these funds.

The following chart provides a breakdown, by agency, of carry-forward funds.



In accordance with ORS 541.378, interest earned on OWEB's portion of the carry-forward funds accrued to the Restoration and Protection Research Fund.

Statutes restrict these moneys for the purpose of funding research and other activities related to the Measure 66 program. However, carry-forward funds for OSP, DEQ, ODFW and ODA were held in the Department of Administrative Services (DAS) Economic Development Fund. Interest earned on moneys in this fund accrued to the DAS Economic Development Fund and was not restricted to Measure 66 purposes.

The Oregon Supreme Court has consistently held that where the constitution creates a fund for particular purposes, interest earnings on that fund may only be used for those purposes. We estimate that cumulative Measure 66 carry-forward funds from prior biennia, held in the DAS Economic Development Fund, would have earned about \$161,000 in interest during the 2007-2009 biennium.

### Agencies Are Taking Corrective Action to Address Prior Audit Recommendations

One objective of this audit was to assess the corrective actions agencies have taken to address outstanding audit recommendations related to Measure 66. We found that state agencies had initiated or implemented corrective action to address most of the audit recommendations noted in our prior audit of Measure 66 funds. (See report 2008-40, Measure 66 Funding: Financial Integrity, Effectiveness and Performance for the 2005-2007 Biennium, issued December 29, 2008.) Of the 12 recommendations included in the audit report and related management letters, 9 were resolved and 3 had corrective action in process. The following table summarizes agency management actions to address the prior year audit recommendations.

	Past Recommendations	Current Status
OWEB	<p><b>We recommended</b> OWEB take the following actions:</p> <p>1) Work with management at ODFW and ODA to ensure timely corrective action regarding classifying Measure 66 expenditures as capital; and</p> <p>2) Continue monitoring to ensure that at least 65% of the expenditures from the Restoration and Protection Subaccount and the Restoration and Protection Research Fund are capital expenditures.</p>	<p>OWEB met with management from both agencies to assist them in addressing their respective audit recommendations. However, OWEB has not decided upon actions to monitor compliance with the 65% capital expenditure requirement.</p>
ODFW	<p><b>We recommended</b> ODFW take the following actions:</p> <p>1) Develop and document a consistent methodology for reporting its progress in meeting its key performance measure for</p>	<p>ODFW took the following actions to address recommendations 1-3:</p> <ul style="list-style-type: none"> <li>• Developed a fish screen database that contains its installed screening projects;</li> <li>• Established a methodology for</li> </ul>

	<p>reducing unscreened priority water diversions;</p> <p>2) Determine whether it needs to apply this methodology to past key performance measure reporting and develop an updated report, if appropriate;</p> <p>3) Assess records management controls and strengthen them as needed;</p> <p>4) Determine the appropriate length of time for retaining documentation necessary to support reported performance for Western Oregon Stream Restoration Program, 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</p> <p>5) 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.</p>	<p>developing and storing the KPM report. Note: ODFW determined the methodology would be applied to future KPM reporting and that prior reports would not be updated; and</p> <ul style="list-style-type: none"> <li>• Developed a program rules and policy manual to address responsibility for KPM reporting.</li> </ul> <p>4) ODFW added several procedures to help with the retention of key documents. In addition, ODFW updated its administrative rules related to records retention. However, the updated rules were under review and have not yet been implemented.</p> <p>5) ODFW took actions to ensure that Measure 66 capital expenditures were properly classified. Specifically, ODFW management:</p> <ul style="list-style-type: none"> <li>• Developed a methodology to allocate services and supplies to specific capital projects;</li> <li>• Developed a fish screen database to better track and report materials inventory; and</li> <li>• Updated its administrative rules to ensure supporting documentation of expenditures is retained. However, the updated rules were under review and have not yet been implemented.</li> </ul> <p>However, management has not decided upon actions required to ensure leave charged as Measure 66 capital expenditures did not exceed the leave earned working on Measure 66 capital projects.</p>
ODA	<p><b>We recommended</b> 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.</p>	<p>ODA demonstrated its continued efforts to ensure that Measure 66 capital expenditures were properly classified. Specifically, ODA management:</p> <ul style="list-style-type: none"> <li>• Provided documentation that sufficiently linked carpool expenditures to capital projects; and</li> <li>• Developed a process to ensure leave</li> </ul>

		time charged as Measure 66 capital expenditures did not exceed leave time accrued on Measure 66 capital projects.
OPRD	<p><b>We recommended</b> OPRD take the following actions:</p> <p>1) Develop, document and follow a consistent process for accurately reporting progress toward reducing the parks maintenance backlog; and</p> <p>2) Improve key performance measure disclosure to present a full picture of progress achieved.</p>	To address these recommendations OPRD implemented an electronic tracking system (HUB). HUB is used to track OPRD assets, contracts, and projects, including maintenance backlog projects. To assist with accurate reporting, HUB was designed to track the status of existing backlog projects and to prevent new projects from being added to the maintenance backlog.

Additionally, the following table describes recommendations that were not included in the prior audit report, but rather communicated in separate letters to agency management.

OSP	<p><b>We recommended</b> OSP take the following actions:</p> <p>1) Continue efforts to recover the overpayment of \$6,972 due to an undetected pricing error on a purchase order; and</p> <p>2) Review the invoice approval process to determine how best to obtain and document verification that goods and services being charged were actually received by the department.</p>	OSP obtained reimbursement of \$6,972 from the vendor. In addition, OSP revised its Signature Authority policy and provided training to staff.
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## Recommendations

**We recommend** that OSP, DEQ, ODFW and ODA work with OWEB and the Department of Administrative Services (DAS) to ensure that interest earned on Measure 66 allocated funds is credited to accounts dedicated to Measure 66 activities.

**We further recommend** these agencies work with OWEB and DAS to estimate the cumulative interest earnings lost over prior biennia and explore potential actions to obtain reimbursement.

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## Other Matter

### **Use of Measure 66 Funds on State Fair Expenditures Deemed Permissible**

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, during the 2005-2007 biennium, more than \$8.3 million in Measure 66 funds for costs associated with the State Fair. Because these expenditures did not clearly fall within the allowed uses of Measure 66 funds described in the Oregon Constitution, we sought an opinion from the Oregon Attorney General.

After the release of our prior audit, the Oregon Attorney General issued a formal opinion, dated April 7, 2009, that indicated use of Measure 66 funds for current State Fair operations and debt service on the 1999 State Fair bonds is consistent with the constitutionally permissible purposes of Measure 66 funds.

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## Objectives, Scope and Methodology

This audit focused primarily on expenditures from the Restoration and Protection Subaccount. For the purposes of our report, the Restoration and Protection Subaccount includes the funds that flow through the Watershed Improvement Grant Fund, the Watershed Improvement Operating Fund, and the Restoration and Protection Research Fund. The objectives of the audit were to: 1) determine the extent to which cumulative Measure 66 expenditures from the Restoration and Protection subaccount complied with the 65% capital expenditure requirement; 2) determine whether agencies receiving Measure 66 funds from the Restoration and Protection Subaccount adequately accounted for any carry-forward funds; and 3) assess corrective actions agencies have taken to address audit recommendations still outstanding from our prior Measure 66 audit.

The scope of our audit included all seven agencies that received and expended Measure 66 funds during the 2007-2009 biennium. These agencies were OWEB, ODFW, OSP, ODA, DEQ, DOGAMI, and OPRD. Our audit period covered Measure 66 expenditures incurred from July 1, 2007, to June 30, 2009.

To answer our audit objectives, we reviewed applicable sections of the Oregon Constitution, ballot measure summaries, attorney general opinions, statutes and rules, and agency program budgets and goals. In addition, we reviewed agencies' external reporting, such as reports to OWEB, and agency websites. Finally, we spoke to agency officials and program staff.

We analyzed expenditure data from the State's accounting system to determine the statewide cumulative progress toward compliance with the Measure 66 capital expenditure threshold. In order to verify the accuracy of the expenditure data we used in our analysis, we compared total expenditures for our audit period, by agency, to expenditures reported on financial inquiry screens within the state's accounting system. We also compared the data to expenditure totals each agency provided.

We compared OWEB-confirmed allocations to agency expenditures to determine the cumulative amount of funds carried-forward since inception of the Measure 66 program. Our analysis of OWEB's operating and research carry-forward funds relied upon information provided by OWEB, which we reviewed for reasonableness. We interviewed agency staff to determine how the funds were tracked and accounted for, and documented the process for obtaining expenditure authority for those funds.

We used Oregon State Treasury information (i.e. account statements, interest rates, etc.) to determine the average annual interest rate for fiscal years 2008 and 2009, which comprised our audit period. We multiplied the average rates by the carry-forward balance at the beginning of the 2007-2009 biennium to determine the potential interest earnings lost on the funds during our audit period. To ensure a conservative approach to our methodology, we did not take into account the impact of compounding interest or the account activities during the 2007-2009 biennium.

During our last Measure 66 audit, prior to issuing our final report, we sent management letters to certain agencies that included recommendations. When we assessed corrective actions for this report, we counted recommendations only once if they were included in both the prior audit report and a management letter. Also, if multiple management letter recommendations were summarized in the final report as a single item, we counted it as only one recommendation.

We reviewed an opinion obtained from the Oregon Attorney General that addressed our inquiries as to whether the use of Measure 66 funds for the State Fair was consistent with uses allowed by the Oregon Constitution.

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.



# Oregon

Theodore R. Kulongoski, Governor

## Oregon Watershed Enhancement Board

775 Summer St NE, Suite 360

Salem, OR 97301-1290

(503) 986-0178

FAX (503) 986-0199

[www.oregon.gov/OWEB](http://www.oregon.gov/OWEB)



June 30, 2010

James E. Scott, Audit Manager  
Office of the Secretary of State  
255 Capitol St. NE, Suite 500  
Salem OR 97310

Re: Final Draft Audit Report Concerning Fiscal Accountability of Measure 66 Lottery Funds  
for the 2007-2009 Biennium

Dear Mr. Scott:

Thank you for your letter of June 17, 2010, seeking comments on the final draft audit report regarding the use of Measure 66 Lottery Funds for the 2007-2009 biennium. OWEB appreciates the opportunity to coordinate agency responses to the final draft.

With respect to the two recommendations contained on page two of the final draft report, OWEB will work with the Department of Administrative Services and the other agencies to find a means to ensure that future interest earned on Measure 66 funds allocated to other agencies is credited to accounts dedicated to and consistent with the purposes of Measure 66. OWEB will also work with the Department of Administrative Services and the other agencies to estimate the cumulative interest earnings lost over prior biennia and explore potential actions to obtain reimbursement.

Overall, OWEB and the agencies generally agree with the audit recommendations and have begun taking corrective action. The individual agency responses are attached for your reference.

If you have any questions or need additional information, please contact Cindy Silbernagel, at 503-986-0188 or at [cindy.silbernagel@state.or.us](mailto:cindy.silbernagel@state.or.us).

Sincerely,

Thomas M. Byler  
Executive Director

#### Attachments

- c. Katy Coba, ODA
- Roy Elicker, ODFW
- Dick Pedersen, DEQ
- Vicki McConnell, DOGAMI
- Tim McLain, OSP





# Oregon

Theodore R. Kulongoski, Governor

## Department of Environmental Quality

811 SW Sixth Avenue  
Portland, OR 97204-1390  
503-229-5696  
TTY 503-229-6993

June 25, 2010

Gary Blackmer, Director  
Audits Division  
255 Capitol St. NE Suite 500  
Salem, OR 97310

RE: BM 66 Audit:

Dear Mr. Blackmer:

The Department of Environmental Quality concurs with Division of Audits' recommendation to work with Department of Administrative Services (DAS) and other natural resource agencies to ensure that interest earned on Measure 66 allocated funds are credited to accounts dedicated to Measure 66 activities for the upcoming biennium 2011-2013 and thereafter.

For the recommendation to estimate the cumulative interest earnings lost over prior biennia and explore potential actions to obtain reimbursement; the Department will work with DAS and State Treasury to determine a sound estimate of lost earnings.

If you or your staff has any questions, please feel free to call me at (503)-229-5389.

Sincerely,

Dolores Passarelle  
Accounting Manager

Cc: Dick Pedersen, DEQ Director  
Kerri Nelson, DEQ/MSD Administrator



# Oregon

Theodore R. Kulongoski, Governor

June 29, 2010

Cindy Silbernagel  
Oregon Watershed Enhancement Board  
775 Summer St. N.E., Room 360  
Salem, OR 97310-1290

## Department of State Police

General Headquarters  
4<sup>th</sup> Floor  
255 Capitol Street NE  
Salem, OR 97310  
(503) 378-3720  
General FAX  
(503) 363-5475  
Supt.'s Office FAX  
(503) 378-8282  
Personnel/Payroll FAX  
(503) 378-2360  
V/TTY: (503) 585-1452

RE: Measure 66 Audits Findings for 07-09 Biennium

Dear Ms. Silbernagel:

The Oregon State Police has reviewed the Secretary of State's Audit Findings for the 07-09 Biennium. We agree with the recommendation identified by the Secretary of State's Office to ensure that interest earned on Measure 66 allocated funds is credited to accounts dedicated to Measure 66 activities. OSP will work with Oregon Watershed Enhancement Board and the other Measure 66 funded agencies to identify and implement a process to accrue the interest to the appropriate programs.

OSP has also completed actions in response to recommendations identified in the Audit. Secretary of State recommended that OSP take the following actions:

1. Continue efforts to recover the overpayment of \$6,972 due to an undetected pricing error on a purchase order; and
2. Review the invoice approval process to determine how best to obtain and document verification that goods and services being charged were actually received by the depart.

OSP obtained reimbursement of \$6,972 from the vendor. OSP revised its approval process and policy and provided training to all sworn managers on Delegated Signature Authority. OSP has also revised its Procurement Policy and plans to provide training during that Fall of 2010.

If you have any questions or concerns regarding this response, please call me at 503-934-0202.

Sincerely,

Ramona Rodamaker  
Administrative Services Director



# Oregon

Theodore R. Kulongoski, Governor

## Department of Fish and Wildlife

Office of the Director  
3406 Cherry Avenue, NE  
Salem, OR 97303  
503.947.6044  
FAX 503.947.6042  
TTY 503.947.6339  
www.dfw.state.or.us

June 25, 2010

Tom Byler  
Executive Director  
Oregon Watershed Enhancement Board  
775 Summer Street NE, Suite 360  
Salem, OR 97301



Dear Mr. Byler:

This letter is in response to the findings and recommendations noted by the Audits Division in the draft audit report titled, *Measure 66 Funding: Fiscal Accountability for the 2007-09 Biennium*. Each recommendation that the Audits Division directed to our Department is outlined below and followed by our response.

### **Current Recommendations:**

#### Agencies Accounted for Funds Carried-Forward, but Interest Earned was Not Properly Credited:

*Oregon State Police (OSP), Department of Environmental Quality (DEQ), Oregon Department of Fish and Wildlife (ODFW) and Oregon Department of Agriculture (ODA) work with the Oregon Watershed Enhancement Board (OWEB) and the Department of Administrative Services (DAS) to ensure that interest earned on Measure 66 allocated funds is credited to accounts dedicated to Measure 66 activities.*

*OSP, DEQ, ODFW and ODA work with OWEB and DAS to estimate the cumulative interest earnings lost over prior biennia and explore potential actions to obtain reimbursement.*

The Department generally agrees with the current recommendations and will collaborate with OWEB and DAS for resolution by December 31, 2010.

### **Past Recommendations:**

#### Western Oregon Stream Restoration Program (WOSRP) Progress:

*Determine the appropriate length of time for retaining documentation necessary to support reported performance for Western Oregon Stream Restoration Program, 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.*

Letter to Tom Byler, Executive Director  
OWEB  
June 25, 2010  
Page 2

The Department generally agrees with the recommendation and current status as described by the Audits Division in the draft report.

The Department drafted a revision to its administrative rules related to records retention and submitted them to the Secretary of State, Archives Division for review and approval. Upon approval by Archives Division, the Department will implement the revised retention schedule ensuring documents are properly retained and accessible. The Department is working under the current administrative rules related to records retention.

The anticipated completion date is 90-days after receiving the approved retention schedule from Archives Division.

Expenditure Classification:

*Ensure that costs charged as Measure 66 capital expenditures demonstrably meet the definition of capital expenditures as defined in statute and Department of Justice guidance.*

The Department generally agrees with the recommendation. The Department agrees with the current status except for the concluding paragraph which states, "However, management has not decided upon actions required to ensure leave charged as Measure 66 capital expenditures did not exceed the leave earned working on Measure 66 capital projects."

Shirlene Gonzalez, Administrative Services Division (ASD) Administrator, has contacted ODA Fiscal staff to learn their method of accounting for leave as it relates to Measure 66 funding. They have agreed to share their method and tools. The Department intends to implement this method upon 90 days of receipt of the tools. This task is assigned to Cathy Stevens, Fiscal Services Manager.

If you have any questions regarding our response, please contact Shirlene Gonzalez, ASD Administrator at 503-947-6193 or Cathy Stevens, Fiscal Services Manager at 503-947-6199.

Sincerely,



Debbie Colbert  
Deputy Director

c: Roy Elicker, Director  
Shirlene, Gonzalez, ASD Administrator  
Cathy Stevens, Fiscal Services Manager  
Cindy Silbernagel, OWEB Fiscal Manager



# Oregon

Theodore R. Kulongoski, Governor

Department of Agriculture

Office of the Director  
635 Capitol Street NE  
Salem, OR 97301-2532  
(503) 986-4552  
FAX: (503) 986-4750



June 28, 2010

James E. Scott, MM  
Audit Manager  
Office of the Secretary of State  
Audits Division  
255 Capitol St. NE, Suite 500  
Salem, OR 97310

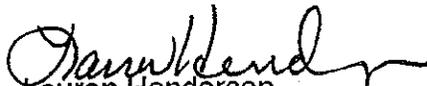
Dear Mr. Scott:

This is in response to the recommendations contained in the final draft audit report for the 2007-2009 biennium pertaining to Measure 66 lottery funds.

The Oregon Department of Agriculture agrees with the first recommendation to ensure that interest earned on Measure 66 allocated funds is credited to accounts dedicated to Measure 66 activities. It is estimated that regular posting of interest earnings will be in place for the 11-13 biennium.

The Oregon Department of Agriculture generally agrees with the second recommendation to work with OWEB and DAS to estimate the cumulative interest earnings lost over prior biennia and explore potential actions to obtain reimbursement. Implementation time depends on the degree of difficulty in estimating the lost interest earnings and whether it is administratively practicable.

Sincerely,

  
Lauren Henderson  
Assistant Director



# Oregon

Theodore R. Kulongoski, Governor

Department of Geology & Mineral Industries

Administrative Office

800 NE Oregon Street #28, Suite 965

Portland, OR 97232

(971) 673-1555

Fax: (971) 673-1562

[www.oregongeology.com](http://www.oregongeology.com)

June 30, 2010

James E. Scott, Audit Manager  
Office of the Secretary of State  
255 Capitol St., NE, Suite 500  
Salem OR 97310

**Re: Final Draft Audit Report Concerning Use of M66 Lottery Funds for 2007-09**

Dear Mr. Scott:

The Department of Geology & Mineral Industries (DOGAMI) has reviewed the report and is in agreement with the findings and recommendations.

DOGAMI appreciated the opportunity to review the Department's use of M66 Lottery Funds for the purpose of collecting high resolution LIDAR data for the State of Oregon with you and your staff.

Should there be any follow-up questions, concerns or further interest in the applications of this powerful technology towards watershed restoration and protection, please contact me at your earliest opportunity.

Sincerely,

**Oregon Department of Geology & Mineral Industries**

Don Lewis  
Assistant Director, Geologic Survey & Services



# Oregon

Theodore R. Kulongoski, Governor

## Parks and Recreation Department

725 Summer Street NE, Suite C

Salem, OR 97301-1266

(503) 986-0707

FAX (503) 986-0794

[www.oregonstateparks.org](http://www.oregonstateparks.org)



July 6, 2010

James E Scott, MM  
Oregon Secretary of State, Audits Division  
255 Capitol St. NE, Suite 500  
Salem, OR 97310

RE: Measure 66 Funding: Fiscal Accountability for the 2007-2009 Biennium Audit Response

Dear Mr. Scott,

This letter is in response to the Measure 66 funding: Fiscal Accountability for the 2007-2009 Biennium Audit, specifically pertaining to the report on ORPD (Oregon Parks and Recreation Department).

OPRD has reviewed the report and we agree with the information in the report that pertains to Parks & Recreation.

We would like to commend the audit team for the professional and collaborative approach taken to conduct this audit.

If you have any additional questions, please do not hesitate to contact me. Thank you for the opportunity to respond.

Sincerely,

Lisa VanLaanen  
Assistant Director, Administrative Services  
Oregon Parks and Recreation Department



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## About the Secretary of State Audits Division

The Oregon Constitution provides that the Secretary of State shall be, by virtue of her 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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### Audit Team

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William K. Garber, CGFM, MPA, Deputy Director

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James E. Scott, MM, Audit Manager

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Alan J. Bell, MBA, Principal Auditor

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Wendy Kam, MBA, Staff Auditor

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Jason A. Butler, CFE, Staff Auditor

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John W. Turgesen, Staff Auditor

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Michael J. Yamamoto, Staff Auditor

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This report, a public record, is intended to promote the best possible management of public resources. Copies may be obtained from:

internet: <http://www.sos.state.or.us/audits/index.html>

phone: 503-986-2255

mail: Oregon Audits Division  
255 Capitol Street NE, Suite 500  
Salem, OR 97310

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, Oregon Department of Geology and Mineral Industries and Oregon Watershed Enhancement Board during the course of this audit were commendable and sincerely appreciated.