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*Auditing for a Better Oregon*

August 13, 2004

Cory Streisinger, Director  
Department of Consumer and Business Services  
350 Winter St. NE  
Salem, OR 97310

Dear Ms. Streisinger:

This letter summarizes the results of a risk assessment we recently completed at the Department of Consumer and Business Services. The goal of the risk assessment was to identify any significant management risks associated with the department's duties and responsibilities. This summary is intended to be informational in nature and not an all-inclusive or formal presentation of audit findings or recommendations. It includes only those risks we rated above medium. We have included background information, as well as potential mitigating actions the department could take to address each risk.

We appreciate the time and effort your staff provided as we completed this work. Should you have any questions, please feel free to contact me at (503) 986-2255.

Sincerely,  
OREGON AUDITS DIVISION

Sandra Hilton, CPA  
Audit Manager

SH:bk

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Management Letter No. 440-2004-08-01

## **Building Codes Division**

### **1. The division may not be receiving all the surcharge revenue due from municipalities with building code programs.**

#### Background:

The Oregon Building Codes Division (division) develops and administers the Oregon building code. The division administers building code programs unless municipalities elect to assume the programs. Municipalities with program responsibility are required to impose a state surcharge on all permits identified in the state building code. Oregon Revised Statutes provide the surcharge percentage amounts to be collected and remitted to the division.<sup>1</sup>

Either monthly or quarterly, municipalities remit a Local Government Surcharge Fee Report and surcharge payment to the division. The report requires surcharge information, such as number of permits and amount of permit fees collected, for the various types of fees (e.g., plumbing, electrical, and manufactured dwelling). The division reviews the reports for mathematical accuracy and agrees the report remittance amount to the actual payment received. However, the division does not require documentation to support reported amounts or perform further review to verify information accuracy or completeness.

We conducted a limited review of three municipalities with building code responsibility and one contractor. The selected contractor provided surcharge services to multiple municipalities with building code programs. The purpose of this review was to determine if the municipalities and contractor had a process in place to ensure appropriate surcharges were collected and remitted to the division. We interviewed municipality building code and contractor staff on their permit and surcharge process, and reviewed their fee schedules and support used in completing the surcharge fee report. The municipalities and contractor had permit and surcharge processes in place. However, in discussing fees with the division, it appeared not all surcharges due were collected and remitted by the municipalities. We estimated total surcharge revenue potentially due to the state from those four entities was \$13,000 for a year.

One type of fee not surcharged was the reinspection fee. Reinspections are additional inspections over the allowable amount provided in the cost of the initial permit. According to the division, reinspections are part of the inspection process of ensuring building safety and therefore subject to the surcharge. If an inspector needs to perform additional inspections or site visits, the jurisdiction should recover its costs and the state surcharge should reflect the additional cost. Municipalities, on the other hand, were not imposing the surcharge which appeared to be based on their interpretation of the statutes, since reinspections are not new permits. The statutes establish surcharge percentages applicable to state permit fees and hourly charges but do not clearly define whether other permit-related charges, such as reinspections, are subject to the surcharge.

The surcharge was established to partially defray administrative costs. The division's fund balance has been declining substantially since fiscal year 1996. According to the department, the

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<sup>1</sup> ORS 455.210 and 455.220.

division is projected to have a deficit starting in fiscal year 2005. Thus, it is critical the division receives all surcharge fees due.

Potential Mitigating Actions:

- Clarify and communicate to municipalities building code charges subject to state surcharge.
- Periodically review municipality fee schedules to ensure applicable fees are surcharged.
- Periodically request and review documentation from municipalities substantiating amounts reported and surcharges remitted.

**2. The Oregon Building Codes Division may not be performing sufficient monitoring of municipalities to ensure safe construction of structures in Oregon.**

Background:

The Oregon Building Codes Division (division) ensures safe building construction. It provides building code development, administration, inspection, plan review, licensing, and permit services. Municipalities can assume administration, permit, and inspection services of building code programs. Municipalities requesting authority to operate building code programs are required to submit to the division a program request form, operating plan, fee schedules, service areas, inspector information, and contact personnel.

The division has the authority and responsibility to regulate building code programs assumed by municipalities.<sup>2</sup> During our risk assessment, we found the division does not have a monitoring system in place for this purpose. Prior to 2002 the division had a monitoring program in place to regularly review program operations. This monitoring system was discontinued due to staff reductions. To ensure municipalities are meeting statutory requirements and protecting the public, the division needs to monitor program operations at the municipalities.

Potential Mitigating Actions:

- Develop and implement procedures to efficiently monitor the adequacy of municipality building code programs.

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<sup>2</sup> ORS 455.148, ORS 455.150, and OAR 918-020-0190 to 918-020-0200.

## **Oregon Medical Insurance Pool (OMIP)**

### **1. OMIP may be paying incorrect claim amounts or claims not related to OMIP members.**

#### Background:

OMIP provides medical insurance coverage for Oregon residents who otherwise are unable to obtain medical insurance because of health conditions. OMIP also provides health benefit coverage to Oregonians who have exhausted COBRA benefits and have no other portability options. OMIP is funded solely by premiums from members and assessments on insurers and reinsurers doing business in Oregon. OMIP contracts with a third-party administrator, Regence Blue Cross Blue Shield of Oregon (Regence), for eligibility, enrollment, member services, and claims processing.

OMIP does not have documented policies and procedures for conducting oversight of Regence processing and paying program claims. Also, OMIP does not test claims to ensure payments are only for OMIP members and are reasonable. The only claims review OMIP performs is of unresolved complaints.

OMIP does not receive detailed electronic claim payment information. Although OMIP relies on Regence's quality control process and Regence's hardcopy reports, OMIP did not know or have record of what the process entailed.

OMIP receives weekly reports reflecting claims paid to providers and the services that were provided. Since the reports are not electronic and not detailed by member, review for payments made on behalf of non-OMIP members and unreasonable claims payments is difficult. OMIP is working with Regence to obtain electronic member and claims data. OMIP plans to use this data to assist with program management and monitor members approaching the million-dollar lifetime benefit. Still, OMIP does not plan to use the data for monitoring Regence's processing and paying of program claims.

If there are processing errors, OMIP may be paying for claims not related to OMIP member expenses or paying incorrect amounts, both of which could affect member premiums.

#### Potential Mitigating Actions:

- Develop and document policies and procedures for conducting sufficient oversight of claims processing and payment.
- Obtain detailed, electronic member and claim data from Regence and conduct periodic testing of claims to ensure claims are reasonable and paid only for OMIP members.