

Office of the Secretary of State

Kate Brown
Secretary of State

Robert Taylor
Deputy Secretary of State



Audits Division

Gary Blackmer
Director

255 Capitol St. NE, Suite 500
Salem, OR 97310

(503) 986-2255
fax (503) 378-6767

April 28, 2014

Dr. Vicki S. McConnell, Director and State Geologist
Department of Geology and Mineral Industries
800 NE Oregon St., #28, Suite 965
Portland, Oregon 97232

Dear Dr. McConnell:

In June 2013, we received a complaint from Laurence Tuttle, representing the Center for Environmental Equity, alleging that the Department of Geology and Mineral Industries (DOGAMI) was not in compliance with the Pre-Application Cost Recovery Agreement (cost recovery agreement) between DOGAMI and Calico Resources Corp. USA (Calico). According to the cost recovery agreement, Calico intends to develop a gold and silver mine near Grassy Mountain in Malheur County, Oregon. Depending on the outcome of the pre-application phase, the proposed mine may, or may not, be operated as a chemical process mine. The complaint alleged that (1) DOGAMI incurred liability for expenses related to processing the pre-application despite Calico's failure to make timely reimbursements to the state pursuant to the cost recovery agreement; and (2) DOGAMI reached informal agreements and understandings with Calico instead of enforcing the provisions of the cost recovery agreement. Furthermore, the complaint requested that the Secretary of State remove administration of the Calico cost recovery agreement, including billings and collections of invoices, from DOGAMI and reassign administration of the cost recovery agreement and future similar cost recovery agreements to the Oregon Department of Administrative Services.

We reviewed the complaints and found that DOGAMI billed Calico for expenses incurred and received payment for all invoices we reviewed, although not all in a timely manner. We noted DOGAMI could improve its billing process by billing on a regular basis, that is, monthly, which would bring them into compliance with contract language and may help reduce the time it takes to receive payment.

We found no basis for the other allegations and the request for transferring the billing process to the Department of Administrative Services.

Background

DOGAMI is Oregon's primary source of geologic information. It produces maps and reports that can be used to manage geologic resources, including water, and to reduce the loss of life and property due to geologic hazards. DOGAMI helps Oregonians understand and prepare for earthquakes, tsunamis, coastal erosion, landslides, floods and other geologic hazards. It is the lead regulator for geologic resources (oil, gas, geothermal energy, metallic and industrial minerals and sand, gravel and crushed stone), with attention paid to environmental, reclamation, conservation and related economic, engineering and technical issues.

Oregon uses a consolidated application process for administering state regulatory requirements of chemical process mines. The majority of the state regulatory requirements are consolidated into a permit issued by DOGAMI. The process incorporates two coordinating and technical groups in the application review and permit development process: the Project Coordinating Committee (PCC); and the Technical Review Team (TRT). The PCC members include appropriate state agencies, affected federal agencies, local governments, and interested Tribal Nations that share information and coordinate local, state, and federal permitting requirements to avoid contradictory requirements. The TRT is an interdisciplinary team of state agencies that review the application and develop consolidated permit conditions that conform to Oregon regulations. Both the PCC and TRT meetings are open for the public to attend.

Language in DOGAMI's cost recovery agreement with Calico describes the billing and payment activities for the permitting process. Calico is to pay all expenses incurred by DOGAMI and the permitting and cooperating agencies related to the consolidated application process. DOGAMI is to bill Calico for recovery of expenses on a monthly basis. Calico is to reimburse DOGAMI for expenses within 30 days of receiving a bill, unless Calico disputes an amount, in which case Calico may withhold payment for the item in question.

Results

Based on our review of four selected invoices, we found that DOGAMI received payment from Calico within the 30-day payment period for one invoice, and from 17 to 22 days after the 30-day due date for the remaining invoices. However, DOGAMI billed these invoices anywhere from 30 to 36 business days after the previous billing, and the invoices often included more than one month's activity. DOGAMI management explained that they did not always receive invoices from the other billing agencies at the same time, and delays in receiving invoices from other billing agencies caused delays in DOGAMI's billings to Calico.

Recommendations

We recommend DOGAMI management improve their billing process and bill Calico on a regular basis, that is, monthly, for the invoices they have at the time.

Methodology

We interviewed the complainant to gain an understanding of the allegations. To perform our review of the allegations, we interviewed DOGAMI's director, and obtained descriptions of the billing process from staff. We read the cost recovery agreement and available information about the application process. We also obtained and analyzed four invoices, comparing the date billed to the receipt of payment and to the previous billing. We also obtained information from the state accounting system to include in our analysis.

We appreciate your staff's time and cooperation during this investigation. If you have any questions, please contact me at (503) 986-2351.

Sincerely,
OREGON AUDITS DIVISION

V. Dale Bond, CPA, CISA, CFE
Audit Manager

cc: Laurence A. Tuttle