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Kennith Jeske, Administrator
Oregon Corrections Enterprises
3691 State Street
Salem, Oregon 97301

Subject: Independent Auditor's Report on the Agreed-Upon Procedures for Reviewing Specified Oregon Corrections Enterprises Contracts, Expenditures, and Donations

Dear Mr. Jeske:

We performed the procedures, described in the enclosure, which were agreed to by the Oregon Corrections Enterprises (OCE). The procedures were solely to assist management in determining if active and/or closed contracts entered into by OCE were appropriate and if donations granted from January 1, 2011 through March 31, 2014 were appropriate and compliant with agency rules and policies. Agency management was responsible for making all relevant records and personnel available to us. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and generally accepted government auditing standards. The sufficiency of these agreed upon procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the agreed upon procedures.

We were not engaged to and did not conduct an examination or a review of the subject matter, the objectives of which would be the expression of an opinion or limited assurance on the adequacy of financial operations or compliance with laws, rules, regulations or standards. Accordingly, we do not express such an opinion or limited assurance. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the management of Oregon Corrections Enterprises and Department of Corrections and is not intended to be and should not be used by anyone other than the specified parties.

Office of the Secretary of State, Audits Division

State of Oregon
January 6, 2015

Enclosure

cc: Laura Osborn, Deputy Administrator, Oregon Corrections Enterprises
Colette S. Peters, Director, Department of Corrections
Adrianne O'Connor, Internal Audit Administrator, Department of Corrections

Enclosure: Agreed Upon Procedures Performed and Results

Background

Oregon Corrections Enterprises (OCE) was established in 1999 as a semi-independent state agency whose mission is to promote public safety by providing inmates with meaningful work experience in a self-sustaining organization. According to the Oregon Constitution, all inmates of state corrections institutions must be actively engaged in full-time work or on-the-job training. Further, inmate work must be used as much as possible to help operate the corrections institutions, support other government operations, and support community charitable organizations. OCE's products and services, which generate its revenue, include furniture, garments and embroidery, signage, laundry services, call centers and printing.

The OCE Administrator is appointed by and serves at the pleasure of the director of Oregon Department of Corrections. The OCE Administrator appoints an Advisory Council for OCE. The Advisory Council is composed of at least three members with at least one member from the banking or financial industry, one from private business in Oregon, and a third from organized labor. The Advisory Council is charged by state law, ORS 421.347, to provide policy input concerning OCE operations, but has no authority or oversight powers over OCE.

OCE is exempt from many state laws that other state agencies are required to follow, including state contracting and purchasing laws. In these cases, OCE is allowed to determine its own policies and procedures. The OCE Administrator also has broad discretion to enter into contracts or agreements with private enterprise or government agencies to produce, market, and make available prison work products or services. OCE's contracts include personal service, customer, and vendor contracts, as well as interagency agreements. During fiscal year 2014, OCE had approximately 122 active contracts and interagency agreements. Of these, 45 were vendor contracts that included both small contracts of a few thousand dollars to contracts that exceeded $150,000.

The Oregon Constitution allows OCE to donate products and services, such as furniture or printing services, to support charitable organizations. OCE budgets annually for donations. Donations should be non-cash items and are limited by policy to no more than $5,000 annually per charitable organization.

Contracts

1. We used the Oregon Attorney General Model Public Contract Rules (Model Rules) applicable to public procurements for goods and services as best practices and compared the Model Rules provisions to OCE's contracting policies and purchasing policies. Our comparison considered whether OCE's policies substantially met best practices.

   The major difference we noted between the Model Rules and OCE's policies was in the designated levels of procurements. As shown in Figure 1, the Model Rules have three levels of procurements with increasing requirements as to formality of the procurement, while OCE has two levels of procurements.

Figure 1: Model Rules Compared with OCE Policy

Procurement Level	Model Rules	OCE
Small	<= $5,000	<=$15,000
	No required contract or competitive price quotes	No required contract or competitive price quotes; price checking recommended when time allows
Intermediate	>$5,000 to <=$150,000	
	Three informally solicited competitive price quotes or proposals required	
Large	>$150,000	>$15,000
	Competitive sealed bids or proposals and formal solicitation methods required	Three informally solicited price quotes or proposals generally required

The Model Rules also include the following, which are not required by OCE policies:

- Public notice is required for procurements greater than $5,000; OCE's policies provide that price quotes *may* be solicited from selected, qualified vendors, general advertising, or on the Oregon Procurement Information Network.
- Records should be maintained showing the basis of the procurement selection, including quotes or proposals, evaluations and/or justification of selection; OCE's policies require a written record of isolated circumstances, but do not specifically require documentation of the basis of the procurement selection and/or justification of the selection.
- Sole source procurements require written, specific reasons showing the goods or services are only available from one source; OCE's policies require management's determination that goods and services are only available from one source, but do not require the specific reason the goods or services are only available from one source. The policies do require, however, sole source designations to be reviewed annually to ensure the sole source designation is still warranted.

We recommend OCE management consider whether its contracting policies or purchasing policies should be strengthened to include competitive sealed bids or proposals and formal solicitation methods; public notices; specific documentation of the basis of the procurement selection; and documentation of the specific reason goods and services are only available from one source.

2. We reviewed 15 active contracts (4 personal services, 4 vendor, and 7 customer) for potential conflicts of interest. Because determining conflicts of interest is within the purview of the Oregon Government Ethics Commission, we limited our review to determining whether associations existed between (1) OCE employees, or identified relatives, and the contractors; and (2) Advisory Council members, or identified relatives, and the contractors. Such associations could be a precursor to a potential or actual conflict of interest as defined in ORS Chapter 244, *Government Ethics*.

To accomplish our objectives, we judgmentally selected six contracts that could be higher risk and randomly selected nine contracts for review. For these 15 active contracts, we did not find any associations between OCE employees or their relatives and the contractors. We also did not find any associations between Advisory Council Members or their relatives and the contractors.

3. We reviewed 15 closed contracts selected by OCE management. Each contract was in effect for some period between 2003 and 2012. We reviewed the closed contracts for associations between OCE employees or their relatives and the contractors and between Advisory Council members or their relatives and the contractors.

   We did not find any associations between OCE employees or their relatives and the contractors. However, we did find that 14 contracts were between OCE and an Advisory Council member or their relative, and 1 was associated with an Advisory Council member. Additionally, as shown in Figure 2, of the 15 contracts 6 were in effect for some period of time when the associated Advisory Council member served on the Advisory Council. Similarly, in a change of administrator review conducted at OCE in 2013, Department of Correction's internal auditors reported contracts with Advisory Council members.

   In response to recommendations from the internal auditors' report, OCE management revised its Advisory Council policy in December 2013 to specifically state that Advisory Council members are subject to Oregon's ethics laws; these laws prescribe if, how, and when public officials are to disclose the nature of conflicts of interest. OCE's policy also requires Advisory Council members, upon appointment, to sign and abide by the terms in OCE's Conflict of Interest Statement, specifying disclosure requirements. Prior to this policy, OCE did not require the council members to disclose any potential conflicts of interest nor did OCE maintain minutes of all Advisory Council meetings or documentation of the contractor selection process necessary to determine if potential conflicts of interest may exist.

   We recommend for future contracts that OCE management prepare and retain documentation describing the selection process and retain disclosures of public officials, if relevant.

Figure 2: Closed Contracts with Associated Advisory Council Members

Contractor Name	Associated Advisory Council Member	Contract Purpose	Contract Not to Exceed Amount	Contract Effective Dates	Advisory Council Member's Term
Contracts in Effect During Member's Term					
de Haan & Associates, LLC	Benjamin de Haan	Letter of Agreement to provide research and consulting services	$23,000	9/1 - 11/30/2003	2003-2005
Portland State University[1]	Benjamin de Haan	Provide research and evaluation services	$300,000	9/1/2003 - 8/31/2005	2003-2005
de Haan & Associates, LLC	Benjamin de Haan	Research, evaluate, design not-for-profit prison work program model	$72,000	12/1/2003 – 11/30/2004	2003-2005
ProcessShift, LLC	Mike Greenfield	Consultation services for management of OCE and business development	Not specified	2/1-12/31/2008	2008-2012
Shannon J. Wilson (Greenfield)	Mike Greenfield	Create OCE brochures	$17,010	3/1 – 8/31/2011	2008-2012
Shannon J. Wilson (Greenfield)	Mike Greenfield	Project management, research, design and layout of OCE Annual Report	$6,525	9/9 - 11/30/2011	2008-2012
Contracts in Effect Not During Member's Term					
Yoshida/Array Corporation	Junki Yoshida	Promote, merchandise, sell, and distribute OCE products	Not specified	1/10/2003 – 7/31/2008	2000-2002
Yoshida/Array Corporation	Junki Yoshida	Agreement to terminate prior agreements; includes disposition of inventory	Not applicable	1/10/2003	2000-2002
Yoshida Sports	Junki Yoshida	OCE sublease of building to Yoshida Sports	$6,000	7/14/2003 – 7/13/2004	2000-2002
Yoshida/Forrester Co	Junki Yoshida	OCE to embroider, ship Forrester's products; OCE to purchase equipment, materials from contractor	Not specified	1/1//2004 – 4/17/2006	2000-2002
Yoshida/Jones LLC	Junki Yoshida	OCE to embroider, ship Jones' products OCE to purchase equipment, materials from contractor	Not specified	1/1/2004 – 7/31/2007	2000-2002
Dave Cook[2]	Dave Cook	Consultation services for management of OCE and business development	Not specified	10/1/2007 – 9/30/2008	2003-2005, 2008-2013
ProcessShift, LLC	Mike Greenfield	Analyze OCE's relationships, operations, and provide strategic recommendations	$10,000	8/23 – 10/22/2004	2008-2012
ProcessShift, LLC	Mike Greenfield	Strategic and business planning	$25,000	11/8 – 12/15/2004	2008-2012
ProcessShift, LLC	Mike Greenfield	Train managers, assist with stakeholder relationships, provide strategic planning, assist with education and workforce development	$75,000	12/16/2004-12/31/2005	2008-2012

[1] Benjamin de Haan, Director, Criminal Justice Policy Research Institute at PSU was responsible for supervision/direction of contract work.
[2] Dave Cook was reappointed to the Advisory Council effective November 21, 2008.

4. We reviewed 175 expenditures, selected by OCE management, to determine if they were related to vendor contracts and if OCE maintained supporting documentation for these expenditures. All 175 expenditures, totaling $1.4 million, occurred between January 2003 and February 2012.

   OCE management provided us expenditure information from OCE's accounting system. This information generally consisted of the check number, check amount, check date, vendor number, vendor name, and a brief invoice description. In some cases, no invoice description was provided or the description was limited to one or two words. All of the payments represented by the expenditures were made to vendors listed in the 15 closed contracts previously discussed. Contract numbers were not included in the information from OCE's accounting system. As a result, we were not able to determine conclusively whether all expenditures were related to specific contracts.

   Of the 175 expenditures, no supporting documentation was available for 126 expenditures dated prior to September 2007, most likely due to the expiration of OCE's records retention period. OCE's records retention policy requires a six year retention period for documentation and backup of all payments to vendors, including the following: invoices, receipts, purchase requests, purchase orders, other supporting documentation, and correspondence.

   OCE was able to provide supporting documentation for the remaining 49 expenditures, totaling $95,278, with payment dates between September 2007 and February 2012. Because the supporting documentation did not always reference a contract, we were able to relate only $43,708 to OCE contracts. Best practices recommend documentation be complete to provide an audit trail in which a transaction can be traced from the source documentation, through its processing, to financial reporting.

   We recommend OCE management include applicable contract numbers on supporting documentation or in its accounting system to improve the audit trail for the expenditure transactions.

Donations

1. We reviewed donations made from January 1, 2011 through March 31, 2014. Of 58 donations, totaling approximately $63,500, we judgmentally selected donations equal to or greater than $2,000; 6 met this threshold. From the remaining 52 donations, we randomly selected an additional 8 for review. We reviewed the 14 selected donations for any associations between OCE employees and the charitable organization's employees and/or board members. We also reviewed the selected donations for any associations between OCE Advisory Council members and the charitable organization's employees and/or board members.

   For all 14 donations, we did not find any associations between OCE employees and charitable organization employees and/or board members. Additionally, no associations were found between OCE Advisory Council members and the charitable organizations employees and/or board members.

2. We also reviewed the 14 selected donations for compliance with OCE's donations policies and procedures.

   As shown in Figure 3, the 14 donations reviewed complied with most of OCE's donations policies and procedures. Three donations were made that were not in compliance with OCE's policies and procedures. While these donations were approved by the OCE Administrator or Deputy Administrator as allowed by OCE policy, it was not apparent how these donations were in the best interest of OCE as required by policy.

   Thirteen of the 14 donations did not have adequate supporting documentation. Specifically, 12 donations did not provide verification that products or services were received by the qualified charity; 5 did not include a list of donated items; and 1 did not have the retail value noted.

Figure 3: Donations Reviewed for Compliance to OCE's Policies and Procedures

Charitable Organization	Donation Value	Donation to Oregon Based Charity	Donation in Form of Products or Services	Charity Received $5,000 or Less, Annually	Charity Submitted Request for Donation Form	Donation Properly Approved	Adequate Supporting Documentation	Exception to Policy Properly Approved
Bearcat Swim Club	$3,108	✓	✓	✓	✓	✓	N	N/A
Buckman Elementary	$4,000	✓	✓	✓	✓	✓	N	N/A
Boy Scouts- Cascade Pacific Council	$5,000	✓	N	✓	✓	✓	N	✓
Governor's Food Drive	$3,243	✓	✓	✓	✓	✓	N	N/A
Altrusa	$2,000	✓	✓	✓	✓	✓	N	N/A
Pathfinders	$5,000	✓	✓	✓	✓	✓	N	N/A
Pathfinders/Children's Justice Alliance	$1,578	✓	✓	✓	✓	✓	N	N/A
Bridges to Change	$1,242	✓	✓	✓	✓	✓	N	N/A
Habitat for Humanity	$62	✓	✓	✓	✓	✓	N	N/A
Avielle Foundation	$100	N	✓	✓	✓	✓	N	✓
Toastmasters	nominal	✓	✓	✓	✓	✓	N	N/A
NE Bowhunters	$1,600	✓	✓	✓	✓	✓	N	N/A
Eugene Symphony	$300	✓	✓	✓	✓	✓	N	N/A
St. Mary's Boys Home	$19,665*	✓	✓	N	✓	✓	✓	✓

*Donation value equal to 25% discount on furniture purchased by St. Mary's Boys Home

✓- Yes; N – No; N/A – not applicable

In addition, we compared the total amount of donations to the OCE budgeted amount of donations for fiscal years 2012 and 2013. Fiscal year 2012 donations exceeded the budgeted amount of donations, while fiscal year 2013 donations were less than the budgeted amount.

Fiscal Year	Actual Donations	Budgeted Donations
2012	$43,104	$12,000
2013	$5,279	$6,900

We recommend OCE management:

- document how exceptions to donations policies and procedures are in the best interest of OCE;
- ensure a list of donated items and the retail value of the items is included for all donations;
- develop a process to verify donations are received by the qualified charity; and
- ensure combined annual donations do not exceed budgeted annual donations.

Agency Response:

The agency's response is attached at the end of this document.

Oregon Corrections
ENTERPRISES

February 18, 2015

Mary Wenger, CPA, Deputy Director
Office of the Secretary of State
Audits Division
255 Capitol Street NE, Suite 500
Salem, Oregon 97310

Re: Oregon Corrections Enterprises – Agreed Upon Procedures

Dear Ms. Wenger,

Thank you for the opportunity to respond to the recent Independent Auditor's Report on the Agreed Upon Procedures for Reviewing Specified Oregon Corrections Enterprises (OCE) Contracts, Expenditures and Donations. The report highlighted areas in which OCE can improve our process for contracting, purchasing and responding to donation requests. We are pleased to report that OCE has already implemented many of the Independent Auditor's recommendations and that we are actively updating related policies to reflect several recommendations.

You will find our response to each Independent Auditor's Report recommendation below.

Recommendation # 1– Contracts
We recommend OCE management consider whether its contracting policies or purchasing policies should be strengthened to include competitive sealed bids or proposals and formal solicitation methods; public notices; specific documentation of the basis of the procurement selection; and documentation of the specific reason goods and services are only available from one source.

OCE agrees with this recommendation in part. As the Independent Auditor's report recognizes, OCE is exempt from the public contracting code (ORS Chapter 279A, 279B, and 279C). OCE is exempt from those statutes because the legislature and the voters intended for OCE to operate in businesslike manner and to retain the flexibility needed to meet its statutory and constitutional obligations with regard to prison work programs. Indeed, the Oregon Constitution specifically exempts prison industry work programs from statutory competitive bid and purchase requirements and requires that the programs be run in a businesslike fashion. In addition, OCE is not subject to the purchasing and contracting rules set by the Department of Administrative Services nor is it required to follow the model contracting rules of the Oregon Department of Justice, both of which implement the public contracting code. Nevertheless, OCE is reviewing both its Contracts Requests and Processing policy, 02.02.01, and its Purchasing and Receiving policy, 02.02.03. We offer comments on each policy in turn.

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02.02.01 Contracts Request and Processing

The purpose of this policy is to establish responsibilities and procedures for OCE when it enters into contracts with customers, vendors, private partners and state agencies for goods, services, leases, rental agreements, interagency agreements and professional services.

Currently, OCE has 112 active contracts and interagency agreements. Of those contracts, 54% are for services OCE offers to customers. Of the remaining 46% of contracts, Information Technology services make up approximately 23%, most of which involve DAS Statewide Pricing Agreements. Another 15% are Administrative contracts for services with another state agency or OCE's public partners, including the Public Employee Retirement System (PERS), Oregon Judicial Case Information Network (OJIN), Employee Assistance program (EAP) and the Department of Justice for trademark management. The remaining 8% (8 contracts) are with vendors for equipment and truck leases, and various inventory items. At this time there are no active Personal or Professional Services contracts.

After a review of Policy 02.02.01 and the report's recommendations, OCE management agrees that there is a need to revise the policy to include stronger language in the area of personal and professional services to avoid conflicts of interest and confidentiality issues. OCE will revise the policy regarding Personal and Professional Service Agreements with Contractors to include the following requirements:

- The basis of the selection criteria for Personal and/or Professional Service Agreements with Contractors will be documented and maintained in the contract file for the Contractors.

- Contractors will be required to sign statements confirming that no conflict of interest exists in their providing services to OCE.

- Contractors will be required to sign Confidentiality Agreements before any work is performed on behalf of OCE.

- Professional services contracts will require two signatures: (1) the signature of the Executive Team Member requesting the services; and (2) the signature of the OCE Administrator. All personal services contracts will also require documentation declaring that no conflict of interest exists for all parties.

02.02.03 Purchasing and Receiving

This policy primarily sets guidelines for the procurement of goods, services and commodities to be used in various OCE manufacturing businesses. The purpose of this policy is to establish the responsibility, procedures and approval process for the procurement of goods and services for OCE. This policy is designed to ensure timely and prudent purchasing, maintain efficient business operations, and limit agency risk.

Although OCE primarily engages in selling its goods and services, OCE must occasionally purchase goods or services to fulfill its statutory and constitutional duties. Those purchases often exceed $15,000, and OCE must complete the purchases in a timely manner to meet customer order deadlines and fulfill OCE's statutory and constitutional functions. As a result, OCE management has determined that it is necessary to maintain a less-restrictive procurement process than that outlined in the DOJ model rules. Importing the requirements of the DOJ model rules, which implement the public contracting code, would restrict OCE's ability to operate competitively and have the flexibility necessary to achieve its constitutional obligation to manage its work programs in a businesslike fashion.

That said, OCE agrees that records should be maintained to document the basis for procurement selection from a sole source. To that end, OCE will adopt policies that require additional documentation identifying the specific reasons goods and services are only available and purchased from one source.

Recommendation # 2 - Contracts
We recommend for future contracts that OCE management prepare and retain documentation describing the selection process and retain disclosures of public officials, if relevant.

OCE agrees. As noted in our response to Recommendation #1, OCE will strengthen its contracting policy to require documentation of selection criteria and the inclusion of a Conflict of Interest statement. All of that additional documentation will be retained in the contract file for the appropriate required retention period.

Also, as noted in the Independent Auditor's Report, OCE updated its Advisory Council policy in December 2013 to clarify the obligations of council members as public officials. In addition, council members must sign a Conflict of Interest Statement. Potential candidates for the OCE Advisory Council will complete an application form to be reviewed by both the OCE Administrator and the Director of the Oregon Department of Corrections. In addition, meeting minutes are now required and will be maintained for all Advisory Council meetings by the OCE Administrator's executive support staff.

Recommendation # 3 - Contracts
We recommend OCE management include applicable contract numbers on supporting documentation or in its accounting system to improve the audit trail for the expenditure transactions.

OCE agrees. OCE management recently completed a review of examining how current and past payments on contracts are processed through SAGE, its financial accounting system. OCE management agrees with the recommendation to include the applicable contract number when processing payments.

Going forward, the contract number will be entered into SAGE when setting up payments for contracts which will ensure an audit trail for contract expenditure transactions.

Recommendation #4 – Donations
We recommend OCE management:

- ***document how exceptions to donations policies and procedures are in the best interest of OCE;***
- ***ensure a list of donated items and the retail value of the items is included for all donations***
- ***develop a process to verify donations are received by the qualified charity; and***
- ***ensure combined annual donations do not exceed budgeted annual donations.***

OCE management agrees with the first three recommendations listed above and will revise OCE Policy 01.01.10, Donations to Qualified Charities, to include these recommendations.

With respect to budgeted donations, OCE notes that it can be difficult to budget in advance for donations in a given year. OCE's donation budget often cannot account for all instances during a year when a donation may substantially benefit OCE's marketing of its goods and services, strengthen OCE's inmate work program, or further OCE's statutory and constitutional obligations. To retain the flexibility that OCE needs to operate in an effective, business-like manner, OCE management has concluded that it

is vital that OCE retain the ability to exceed its budgeted annual donations if doing so serves the best interests of OCE and comports with OCE's statutory and constitutional authority.

That said, OCE recognizes and agrees that there is a need to ensure transparency and accountability with respect to OCE's donations. To that end, OCE will establish policies requiring that any donations by OCE meet the requirements of ORS 421.359, which specifies the permissible uses of OCE's funds. Those policies will prescribe a process for OCE to review and approve any proposed donation to confirm that it comports with OCE's statutory and constitutional authority to expend its funds to implement, promote, and improve inmate work programs. OCE will also implement policies that require documentation and explanation of any variance between budgeted and actual donations.

In addition to the recommendations by the Independent Auditor, OCE's policy revisions will include a new requirement that any public official associated directly or indirectly with a qualified charity must disclose the association and cannot gain personally or financially from the donation.

Thank you again for allowing us to respond to the Independent Auditor's Report. We appreciate the insights the audit has provided and we will continue to discuss these important issues internally. If you have any questions, please feel free to contact me at 503-945-2802.

Sincerely,

Kenneth Jeske
Administrator

cc: Colette S. Peters, ODOC Director
Laura Osborn, OCE Deputy Director
Adrianne OConnor, ODOC Internal Audit Administrator