

## Oregon Challenges

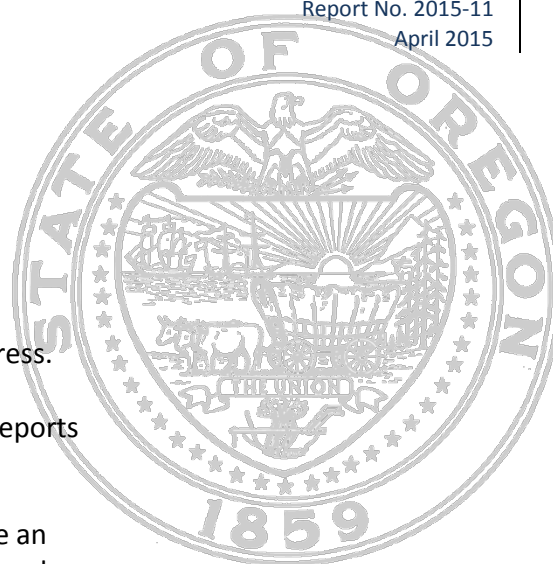
### *An Audits Overview*

#### Introduction

This report focuses on three fundamental areas of state government that pose critical challenges to Oregon's progress. Each area has been the subject of multiple audits, and this report synthesizes past Secretary of State Audits Division reports and related research on each area. The three areas are:

- **Educating Oregon's Workforce:** Oregon must have an educational system organized for student success, and we must identify ways to help Oregonians enter the workforce. Our audits shed light on how Oregon might better educate and mobilize its workforce.
- **Developing Oregon's Infrastructure:** Oregon faces critical infrastructure needs, including the need to upgrade state information systems and to fund future transportation projects. Our audits have identified strategies to address these critical infrastructure needs.
- **Strengthening Oregon's Finances:** Oregon faces critical issues with state and local government financing. Our audits have addressed the financial strain faced by our struggling county partners, ways to collect more debt owed to the state, and ways to build sustainable finances for state government.

We highlight these challenges because they affect important fundamentals of state government - educating its workforce, infrastructure, and finances. We also highlight them because the challenges are large and difficult. While we have seen some progress and small successes, they need more attention and committed efforts from state leaders. More challenges exist and we will periodically report on them as we complete future audits, highlighting key recommendations and agency efforts underway that could address those challenges.



## **Educating Oregon's Workforce: Organize the education system for student success**

A strong education system is vital to the welfare of Oregonians. It strengthens our workforce and overall economy, and can help individuals and families transition off of public assistance.

Large changes in Oregon's education structure the last several years are intended to create an integrated and outcomes-based system of public education. Despite plans and efforts to improve our education system, Oregon continues to struggle in areas such as low on-time high school graduation rates and high absenteeism, poor national rankings for overall student achievement, low community college and university completion rates, and continued increases in college student debt burden.

Additionally, over 340,000 adult Oregonians (11%) do not have a high school diploma or equivalent. Oregon's workforce no longer provides the types of jobs it once did for individuals without a high school diploma, making education a priority for so many more Oregonians.

In the past few years the Oregon Secretary of State, Audits Division has released several performance audits focusing on efforts and opportunities to fulfill Oregon's ambitious education goals and improve the quality of education.

Many of our education audit recommendations have been implemented, and the results of our work have been widely discussed and helped in setting policy direction for Oregon's education system.

The following are some of the challenging areas we identified through our audit work that need continued focus by state agencies, their partners, and the Oregon Legislature to help ensure an equitable and effective education for all Oregonians:

- coordination and collaboration among agencies and oversight boards
- data informed instruction and decision-making
- targeted support services for teachers and students
- the high cost of child care restricts learning at every level
- education funding that may not be sufficient to achieve Oregon's education goals.

## **Educating Oregon’s Workforce: Smoothing the entry of Oregonians into the workforce**

Jobs in Oregon are changing. For the past three decades employment growth has polarized, with the majority of job gains occurring in the lower and higher wage ranges. Eight out of every 10 jobs lost in Oregon during the recession were middle-wage jobs. Although employment is rebounding, Oregon’s Office of Economic Analysis projects that in 2017 middle-wage jobs in Oregon will represent only 61 or 62 percent of all jobs, whereas back in 2007 they accounted for 66 percent of all jobs.

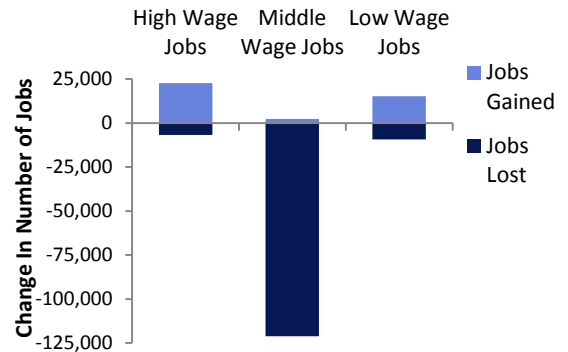
Not only are middle wage jobs shrinking, workers available to fill these jobs often don’t have the right education and training. As we noted in our 2012 audit on meeting Oregon’s middle-skill workforce needs, we have too many workers for some jobs, such as service sales representatives, and too few for others, such as financial clerks.

Several obstacles stand in the way of Oregonians making a smooth transition into the workforce. Increasingly, workers need to have specific training and education beyond a high school diploma in order to compete for available jobs.

Yet, in 2011, the U.S. Census Bureau reported that 340,000 Oregonians or about 11% of Oregon’s population 18 years and older lacked a high school diploma or equivalent. Citizens on public assistance fared far worse. In our 2014 audit of the Temporary Assistance for Needy Families (TANF) program, we noted 30% of the program’s clients hadn’t graduated from high school.

Another key obstacle is the cost of childcare, which hampers GED and educational attainment. Child care can consume a large share of household earnings. For example, in 2014, Child Care Aware reported Oregon and Colorado as tied as the 2<sup>nd</sup> least affordable states for center provided infant care for a two-parent family. The average annual cost of center provided infant care was about \$11,078. For low-income Oregonians this price tag is staggering. To complicate matters, programs such as subsidized child care evaporated during the recession, as legislators faced tough funding decisions to provide a safety net for more Oregonians.

**Job Polarization in Oregon, 2008-2012**



### **JOBS Services Cut in 2011**

#### **Currently Available**

- Job Search
- Work Experience
- Subsidized Employment (limited)
- High School Diploma or GED (limited)

#### **No Longer Available**

- Adult Basic Education
- English as a Second Language
- Life Skills
- JOBS Skills Training
- Community Services Program
- Vocational Training
- On the Job Training
- Employment Retention
- Parents as Scholars
- Program Entry/Holistic Orientation
- Child Related Activities
- Domestic Violence
- Drug and Alcohol
- Mental Health
- Learning Disability Assessment
- Short-Term Medical Issues
- Rehabilitative Services

Oregon also lacks incentives to encourage people on public assistance to find work. With one of the lowest income thresholds for eliminating a client's TANF grant, \$617 for a parent of two, a client would only have to work about 16 hours a week at a minimum wage job to lose assistance. This low threshold also creates a disincentive to career advancement because a modest salary increase could result in lost assistance and less money to live on.

To address these challenges, our audits emphasized a need to better focus limited resources on activities that help prepare citizens for high-demand jobs. This includes revisiting budget and program cuts made during the recession. Case managers can also do a better job of ensuring clients complete activities that will prepare them for work.

Stronger partnerships between state and local governments, and private sector partners, are also essential for success. While our audits identified examples of effective partnerships, more collaboration is needed. For example, better partnerships could provide public assistance clients with GED instruction, apprenticeships, and employment services. These important services can move clients off of public assistance and into the workforce, where they can help grow Oregon's economy and better provide for their families.

## **Developing Oregon's Infrastructure: Upgrading state information systems**

Oregon has many outdated computer systems that need replacement. Outdated systems increase operating and maintenance costs, reduce the efficiency of service provision to the public, and may also be more vulnerable to serious security threats. Updating these systems is a daunting, high-cost endeavor with a low success rate.

Over the years, state agencies have struggled to keep up with technology and to implement computer systems they need to do their jobs efficiently or to comply with federal requirements. Currently, several state agencies have computer system projects planned or currently underway that will likely each cost over \$20 million. The expected value of projects currently underway or planned totals approximately \$1 billion.

The Department of Administrative Services' effort to implement processes to monitor and control system development, the "stage gate" process, is a significant step in the right direction. However, much work remains to ensure investments in computer systems are not wasted and state agencies are able to obtain computer systems to better meet their business needs.

Breaches of government and business systems are common news. As these organizations benefit from internet-linked applications, they also risk greater exposure to hackers at an international scale. Protection of private, confidential information is becoming an escalating battle of defense against increasingly sophisticated hackers and their tools.

If these areas are not sufficiently addressed, the state may continue to experience project failures and exposure to security breaches, at substantial costs. In addition, delayed replacement also delays the benefits that technologies can produce for state agencies and the Oregonians they serve.

Our information technology audits include reviews of agency systems for security. We prepare confidential reports as permitted under ORS 192.501. We rarely complete an audit that doesn't require recommendations to address security concerns. Our future plans include a combination of audits, of the state data center, and at agencies to evaluate their actions to address identified security risks at the application level.

## **Developing Oregon’s Infrastructure: Funding future transportation in Oregon**

Oregon’s dedicated gas tax revenues are declining due to reduced buying power, more fuel-efficient vehicles, and fewer miles driven. With the Federal Highway Fund facing depletion, there is also greater uncertainty about Oregon’s share. Rural counties face their own challenge as the federal timber funds that helped finance road maintenance disappear.

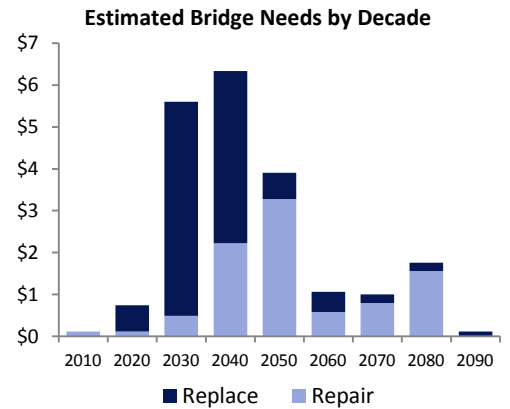
Even as these revenues decline, our transportation system ages, and Oregon faces a growing need to replace and maintain highways, bridges, and other infrastructure.

The state has increasingly relied upon long-term borrowing to cover its road construction and maintenance costs. Our most recent analysis of the State’s Financial Condition noted that in the past ten years, Oregon borrowed \$2 billion to pay for bridge and road construction. These debt obligations reduce money available to pay for future transportation needs.

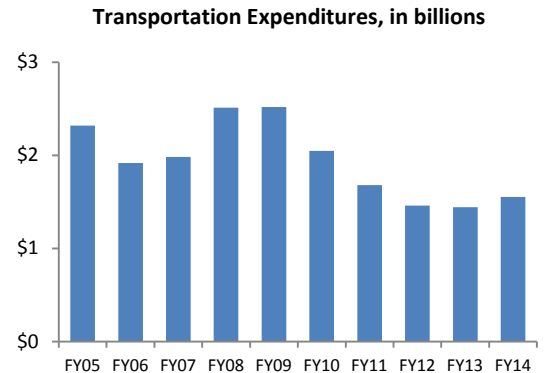
Preserving an experienced well-trained highway workforce becomes more difficult in a period of funding uncertainty. As a result, ODOT could lose skills and expertise needed to perform duties such as design and inspection. Further reductions could delay projects, increase their costs, and reduce contractor oversight, with the risk of lower quality of construction.

Oregon faces impediments to its commerce, jobs, and economic vitality that are closely tied to efficient transportation of goods and people. The more remote areas of Oregon risk becoming even more isolated and economically weakened without an adequate transportation network.

Technologies are offering new approaches to highway funding, such as mileage fees in place of gas taxes. Our audit of a GPS technology found it accurately and reliably captures and calculates Oregon weight-mile tax information from commercial motor carriers.



Source: Legislative Fiscal Office 2013-15 Budget Analysis



## **Strengthening Oregon’s Finances: Addressing Oregon’s struggling county partners**

The recession was most harsh in Oregon’s rural counties, with jumps in unemployment rates and welfare rolls. Declining federal timber funds compounded the situation for some counties, and only a few obtained voter approval for local tax increases. Many county residents still hope that Oregon’s congressional leaders can increase logging on federal lands to stop or slow the reductions in funding.

The demographics for many of these counties show an aging population, as 18- to 25-year-olds migrate elsewhere. A diminished workforce may further reduce the resilience of these local economies.

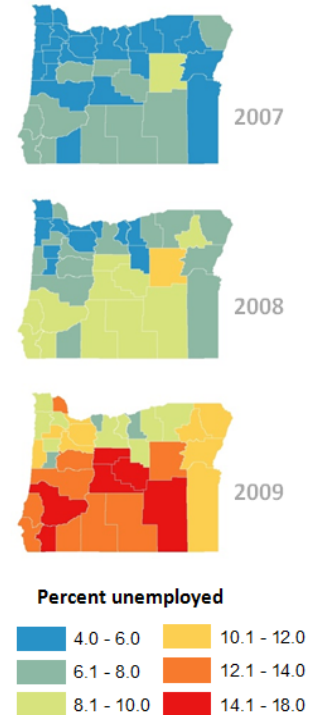
State government depends upon a partnership with its counties to address critical needs of Oregonians such as mental health, community corrections, juvenile justice, and elections. Some partnerships may be at risk where counties lack the local revenues to pay for their own critical services such as law enforcement, jails, and road maintenance.

It is important to track the financial health of Oregon’s counties and monitor those at most risk. Our two reports cannot encompass the varied community needs and priorities that shape the solutions to these challenging local problems. Instead, counties with more warning indicators were invited to describe their remedial actions and plans, which we included.

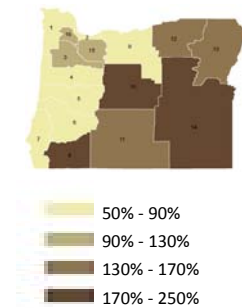
We analyzed key financial indicators for all 36 counties. We reported ten-year trends of these indicators for counties warranting further attention. In 2014 there were nine:

- Columbia
- Coos
- Curry
- Douglas
- Jackson
- Josephine
- Lane
- Linn
- Polk

**Unemployment Rate by County, 2007-2009**



**Percent change in TANF cases, 2007 - 2013**



## **Strengthening Oregon’s Finances: Collecting more debt owed to the state**

Statewide debt has risen from about \$1.7 billion in 2008 to more than \$3 billion in 2014, while statewide collection rates dropped from 13.5% to 10.5 %.

Since 1997, audits recommended a greater emphasis on technologies for increased collections, particularly when staff resources are already stretched. In 1997, we recommended a computer system upgrade to allow collection agents to view relevant details on their assigned accounts.

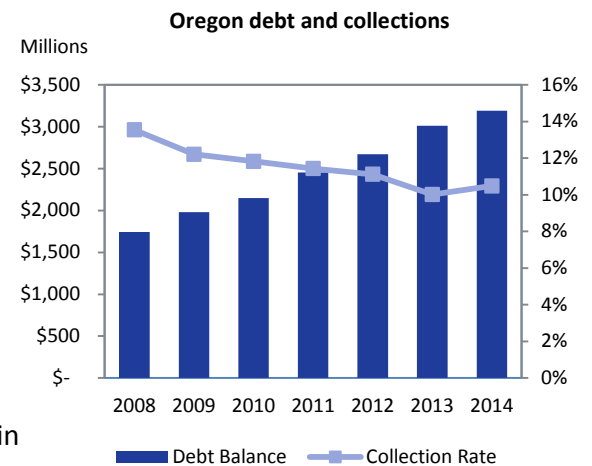
In 2005 we analyzed university “uncollectible” debt and found that 36% of the debtors were working in Oregon. Of 54,000 debtors filed in the Department of Revenue’s Other Agency Accounts Programs, we found about half had worked in Oregon the previous fiscal year.

Data sharing among state agencies can also improve collections, but laws may limit data access. We could not provide university officials with employment wage information we produced about their debtors. Yet universities could share debtor information with the Department of Revenue, which can legally use employment wage records, and pursue collection.

Our 2010 audit included strategies for increasing revenue collections with better technology. The department’s systems could not determine that it could take between 8 and 20 months to call a debtor. Automation would have identified lapsed time and encouraged timely collection actions.

Agencies that focus more attention on high performance strategies can help staff collect more. We estimated that children could benefit from an additional \$70 million in annual child support collections if Oregon could achieve the same collection rate as Pennsylvania.

Realizing this topic’s significance, the Audits Division is currently engaged in a collection audit that will further examine opportunities to better utilize technology, and benefits of a more systematic, enterprise approach to manage collections.





**Strengthening Oregon’s Finances: Building sustainable finances for Oregon government**

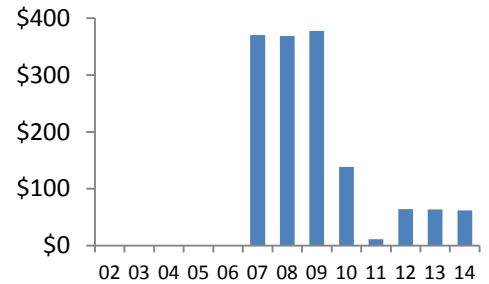
Oregon government continues to earn a healthy credit rating when it borrows, which is based on its financial picture. Even so, as the state economy climbs back to its pre-recession levels, some underlying financial issues will need attention. The Rainy Day Fund, newly created, has been nearly depleted and will need to be replenished.

While Oregon now carries very few veteran loans, state government borrowing has increased in the past decade through revenue bonds, general obligation debt and certificates of participation. Borrowing allows quick financing of projects, especially at the current low interest rates, but long-term debt payments for Oregon have doubled since 2006 and will saddle the state for decades.

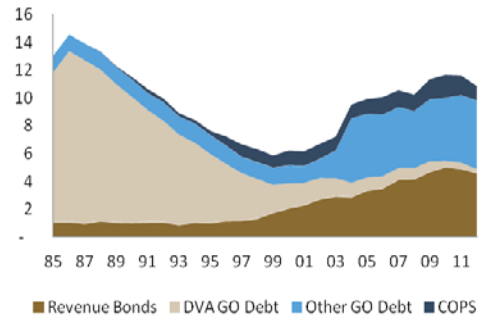
The cost of Oregon’s employee benefits such as pensions and health care have seen slower growth. Program changes by the state, a rebound on investments, and a national slowdown in health costs all contributed.

The unfunded liability for the pensions of state employees has been recovering. In 2014, PERS assets reached 97% of liabilities, as a result of investment growth and changes enacted by the 2013 Legislature. A recent Supreme Court ruling will affect the 2014 liability estimate, increasing the PERS unfunded liability.

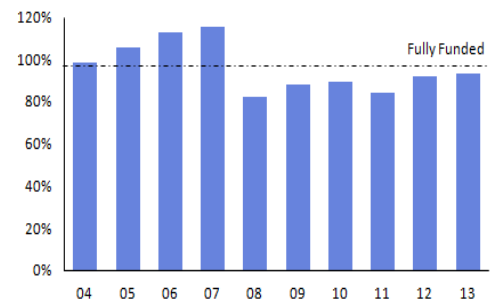
Oregon Rainy Day Fund, in Millions



State Debt, in Billions



State Employee Pension Funding



## Key audits and recommendations

- **Educating Oregon's Workforce: Organizing the education system for student success**

[Opportunities to Increase Adult GEDs in Support of 40-40-20 Education Plan – Report No. 2013-02 Issued in February 2013](#)

We recommended that CCWD work with ODE and the community colleges to help facilitate the sharing of allowable information about students who recently dropped out of high school or did not fulfill the requirements to earn a high school diploma for the purposes of providing them information about the GED program and exam.

[Efforts to Close the Achievement Gaps – Report No. 2014-10 Issued in April 2014](#)

We recommend that ODE develop, analyze, and report an achievement gap measure statewide and at the school level for one or more grade levels. We also recommended ODE consider using a gap measure that incorporates the difference in average scores.

[Additional Efforts and Resources Needed to Improve Teacher Preparation and Professional Development](#)

We recommended ODE continue to work with the Oregon Legislature and school districts to address funding needs for high quality mentoring for beginning teachers, plans for needed professional development, and professional development opportunities in geographically remote areas.

[Child Care in Oregon: Difficult to Afford; New Regulations May Improve Safety but Further Raise Costs – Report No. 2014-25 Issued in December 2014](#)

We recommended ODE and DHS determine costs associated with comprehensive background checks, inspections, and posting inspection reports online and develop strategies to minimize the burden on providers and families.

- **Educating Oregon’s Workforce: Smoothing the entry of Oregonians into the workforce**

[Improvements Needed to Better Meet Oregon’s Middle-Skill Workforce Needs -- Report No. 2012-18 Issued in June 2012](#)

We recommended that the governor’s office coordinate with the Department of Community Colleges and Workforce Development, the Oregon Workforce Investment Board, and/or the Oregon Education Investment Board to incorporate high-demand occupational clusters into their planning, priority setting, budget allocations, and evaluation efforts.

We also recommended the governor’s office coordination efforts continue to support community college and Local Workforce Investment Board partnerships with industry to leverage additional resources for creating or expanding needed career and technical education programs.

[Temporary Assistance for Needy Families: High Expectations, Stronger Partnerships, and Better Data Could Help More Parents Find Work – Report No. 2014-08A Issued in April 2014](#)

We recommended the Department of Human Services significantly raise expectations of clients, build stronger partnerships with Coordinated Care Organizations and other groups to improve client services, and use available data to better assist clients, track their progress, and evaluate the performance of program initiatives.

We also noted the Legislature could help by revisiting decisions made during the recession, giving case managers more flexibility in managing uncooperative clients, reducing the sudden drop in benefits when TANF clients find work, and adding small-scale incentives that encourage clients to make progress.

In a move to address issues inherent within federal regulations, we recommended Congress and the federal Department of Human Services allow parents more time and credit for pursuing GED certificates and higher education while working or looking for work. We also recommended parents receive some participation credit for

documented progress in activities focused on removing barriers, such as addiction treatment and vocational rehabilitation, unpaid work experience and community service. Last, we recommended that federal auditors further review the federal TANF regulations responsible for limiting participation credit.

[Opportunities to Increase Adult GEDs in Support of 40-40-20 Education Plan – Report No. 2013-02 Issued in February 2013](#)

We recommended that the Community Colleges and Workforce Management Department work with community colleges to help increase public awareness of the value of obtaining a GED credential in order to achieve personal education and employment goals.

After implementation of the 2014 GED exam, we recommended the department consider evaluating the impact of the exam to determine whether recipients appear to be adequately prepared for the workforce and/or college. We also made several other recommendations directed towards improving GED completion rates.

[Child Care in Oregon: Difficult to Afford; New Regulations May Improve Safety but Further Raise Costs – Report No. 2014-25 Issued in December 2014](#)

New federal regulations intended to increase child safety, such as more comprehensive background checks and more inspections of child care providers, will come at a cost. Unaffordable child care can discourage parents from participating in the workforce or from pursuing educational opportunities.

Our audit recommended that the Oregon Department of Education and the Department of Human Services determine the additional costs of the federal regulations and develop strategies to minimize the burden on providers and families. Our audit included additional recommendations, as well, that focused on implementing federal regulations.

[Save on Vocational Rehabilitation Costs to Serve More Clients – Report No. 2010-31 Issued in September 2010](#)

Oregon’s Office of Vocational Rehabilitation Services (OVRs) helps individuals with physical and mental disabilities, such as hearing and learning disorders, get or keep a job.

To better serve existing clients and to provide opportunities to serve more clients, our audit recommended OVRs better limit unnecessary costs, provide better assistance to help clients achieve realistic employment goals, and promote better counselor decision-making. OVRs counselors are program employees charged with helping clients meet their employment goals.

- **Developing Oregon’s Infrastructure: Upgrading state information systems**

[Major IT Projects: Continue Expanding Oversight and Strengthen Accountability – Report No. 2015-6 Issued in March 2015](#)

We recommended that DAS fully develop and implement stage gate processes to ensure they are effective and repeatable.

[State Data Center: Faster Progress Needed on Security Issues – Report No. 2010-22 Issued in May 2010](#)

We recommend that DAS revise the shared services governance structure to facilitate timely resolution of security issues. SDC governance should ensure that customers’ needs are appropriately considered without encumbering SDC staff ability to implement timely solutions or carry out their security responsibilities.

- **Developing Oregon’s Infrastructure: Funding future transportation in Oregon**

[Better Workforce Planning Needed to Maintain Staff Expertise for Quality Construction – Report No. 2014-12 Issued in June 2014](#)

Our audit recommended the Department of Transportation identify and document critical technical skills and expertise, develop organizational succession plan strategies to address gaps in needed skills and expertise, and consider using developmental and double-filled positions to train less experienced staff. We also recommended the department consider all revenue sources when determining needed staffing levels.

[Oregon Transportation Investment Act III – Bridge Delivery Program – Report 2007-02 Issued in February 2007](#)

Several of our recommendations to the Department of Transportation centered on the department's use of cost information to improve program management. For example, we recommended the department consider using life cycle cost analysis information when making bridge repair/replacement decisions. We also recommended the department take measures to ensure it does not limit the objectivity and value of the services purchased through the department's professional service contracts.

[Automating Weight-Mile Tax Collections Can Benefit the State and Commercial Motor Carriers – Report No. 2013-32 Issued in December 2013](#)

To further improve weight-mile tax processing, we recommended that the Department of Transportation's Motor Carrier Division management develop a secure electronic interface for accepting motor carriers' system-generated weight-mile tax information.

- **Strengthening Oregon's Finances: Addressing Oregon's struggling county partners**

[Oregon's Counties: 2010 Financial Condition Review – Report No. 2014-19 – Issued in September 2014](#)

[Oregon's Counties: 2012 Financial Condition Review – Report No. 2012-17 – Issued in May 2012](#)

- **Strengthening Oregon’s Finances: Collecting more debt owed to the state**

[Opportunities to Improve Delinquent Debt Collection by State Agencies – Report No. 97-77 Issued in October 1997](#) and [Debt Collections: Progress Made But Opportunities for Improvement Still Exist – Report No. 2004-24 Issued in August 2004](#)

The 1997 audit focused on the delinquent debt collection processes of five agencies (Department of Revenue, Department of Human Resources Adult and Family Services Division, Department of Consumer and Business Services, Employment Department, and Department of Transportation). We made a number of recommendations to improve the efficiency and effectiveness of Oregon’s collection function through interagency coordination and expanded use of technology.

Our 2004 audit to identified further actions state agencies could take to improve delinquent debt collection and evaluated the progress made on implementing our 1997 recommendations. This audit included recommendations to increase the Department of Administrative Services oversight function and recommended measures several agencies could take to improve debt collection. The audit also recommended agencies with collection units review the costs and benefits of their collection activities.

[Oregon University System: Written-off Debt Review – Report No. 2005-10 Issued in March 2005](#) and [Related Management Letter to Department of Revenue, Letter No. 580-2005-03-01](#)

Our recommendations centered on using technology to improve collections. We recommended universities electronically submit written-off debt to the Department of Revenue’s Other Agency Accounts program, which collects debt on behalf of state agencies. We also recommended the Department of Revenue work with other entities to utilize data query software to facilitate data collection efforts, such as electronically matching debtors to Employment Department wage information.

[Strategies for Increasing Personal Income Tax Compliance and Revenue Collections – Report No. 2010-20A Issued in August 2010 and Follow-up Report – Report No. 2011-17 Issued in August 2011](#)

The 2010 audit, at the Department of Revenue, focused on two main areas: 1) utilizing data resources to identify non-filers and increase compliance, and 2) reviewing collection practices for delinquent debt, especially as those practices related to the use of private collection firms.

We made several recommendations related to collections. We recommended the department establish and track timeliness and results goals for department personnel to better achieve prompt contacts and collection success. We also recommended the department periodically analyze information on the department's collection strategies, efforts and results, and provided recommendations on how the department could better use automation to improve its collection processes. When we returned to the department in 2011, we found the department was in the process of implementing our recommendations.

[Management Practices That Could Increase Child Support Collections – Report No. 2010-25 Issued in June 2010](#)

Our audit recommended the Department of Justice develop ambitious performance goals for use throughout the program, improve performance reporting, apply constructive actions that can boost collection efforts, and consider other strategies top collecting states use to increase collections.

- **Strengthening Oregon's Finances: Strengthening the finances of Oregon government**

[Financial Condition Report, State of Oregon, 2010](#)

[Financial Condition Report, State of Oregon, 2012](#)



## **About the Secretary of State Audits Division**

The Oregon Constitution provides that the Secretary of State, Jeanne P. Atkins, shall be, by virtue of her office, Auditor of Public Accounts. The Audits Division, under the direction of Gary Blackmer, exists to carry out this duty. The division reports to the elected Secretary of State and is independent of other agencies within 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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