CONSTRUCTION CONTRACTORS BOARD
201 High Street SE, Suite 600
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Salem, OR 97309-5052
503-378-4621

To: Joint Ways and Means Subcommittee on General Government
Senator Jeff Golden and Representative Greg Smith, Co-Chairs
From: Chris Huntington, Administrator, Construction Contractors Board
Date: January, 2021
Subject: CCB 2021-2023 Budget: Written Reference Materials

Mission:
The CCB protects Oregon Consumers and supports licensed contractors, striving to promote smart consumers and a positive business climate.

Vision:
- Protect all Oregon consumers through effective enforcement, expansive outreach and impartial dispute resolution services.
- Enforce business regulatory standards statewide in a manner that supports a fair and competitive business climate.
- Deliver value to the construction community through streamlined regulation, practical education and effective enforcement.
- Provide timely and responsive customer service to both contractors and consumers.

2021-2023 GRB

https://www.oregon.gov/ccb/Pages/budget2017.aspx

2021-2023 CCB Goals

Background
The agency's past two budgets were adopted with a focus on reducing the agency's reserve fund, which was believed to have grown too large. This was accomplished through a temporary reduction of the agency's primary revenue source – license fees. The intent was to create a negative revenue scenario that would require the agency to spend down the reserves in order to maintain consistent service levels. Errors made by the agency in projecting the impact of this decision exacerbated the negative effect on reserves. The actual and expected revenue impact of the COVID "recession" has added to an already unsustainable path.

Throughout 2019-2021 the agency has remained focused on creating and maintaining a sustainable financial path that emphasizes maintaining service delivery to our customer.

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<u>Goals</u>

- **Sustainable Financial Management:** Administer agency programs to preserve resources and maintain service delivery in light of budget limitations.
- **Accountable Service Delivery:** Timely, efficient and responsive delivery of services to consumers and contractors.
- **Operational Maturity:** Continue to standardize operations, adopt best practices, streamline processes and modernize infrastructure to deliver better value to customers.

<u>How 2021-2023 Budget Supports Agency Goals</u>

- **Restores Sustainable Revenue Support:** Sunset of temporary fee subsidy from prior biennia puts the agency on a sustainable path to maintain services and rebuild reserves.
- **Retains Capacity to Deploy Resources within CCB:** The budget proposal retains existing resources and allows the agency the flexibility and autonomy to restore service as revenue allows.

<u>Agency Performance Measures</u>

CCB maintains 10 Key Performance Measures. The full report is included in the GRB. For the 2020 reporting year the agency had:

- **8** Measures in the Green category (w/in at least 5% of target)
- **2** Measures in the Yellow category (less than 15% off target)
- 0 Measures in the Red category (more than 15% off target)

In terms of managing ongoing operations the agency places most emphasis on:

- **Customer Service Survey Results** (KPMs 8 and 9): Survey results and comments are thoroughly reviewed looking for opportunities to enhance our service to customers.
- **Impartiality of Dispute Resolution** (KPM 7): This measure is watched closely. The credibility of the DRS program relies on both parties believing that CCB plays an impartial role.
- **Efficiency of Enforcement program** (KPMs 3, 4 and 5): Leadership watches closely to ensure that our enforcement program is efficient in achieving correct results in a timely fashion.

<u>CCB Programs, organization and service delivery</u> (see attached org. chart)

CCB is governed by a 9-person, Governor-appointed, Senate-confirmed board that includes both residential and commercial contractors, local government and public representatives. The agency's 2021-2023 GRB proposes 60 full-time staff in support of the following programs:

<u>Licensing Program (15 FTE)</u>

- Issue & renew licenses to over **41,000 construction businesses**
- Primary customer service group for agency – "production environment"
  - 300-400 calls daily
  - Processes thousands of applications, renewals, insurance certificates etc.
- Customers can also use online services through CCB web site

<u>Field Investigations and Compliance (23 FTE)</u>

- Statewide investigation and enforcement – over **10,000** annual worksite visits
- Identify, investigate & stop unlicensed work – respond to reports of violations & make random visits
- Investigators are stationed in each region of the state
- Process cases – attempt to gain compliance or assess penalties as appropriate

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Dispute Resolution Services (5 FTE)

- Mediate **2,000 annual** disputes between homeowners and licensed contractors
- Provides impartial mediation assistance to resolve disputes outside of court – phone and in-person

Consumer Outreach and Contractor Education (4 FTE)

- Educates consumers about legal protections through publications, media and events.
- Delivers contractor education on legal requirements, law changes and resources

Major Budget Drivers

Obstacles

- **Depleted Reserves:** Prior biennia decision to reduce fees in order to spend reserves during a time of economic prosperity limits some agency options for navigating current economic downturn.
- **Uncertain Immediate Economic Future:** Potential for additional decline in certain construction sectors and gradual recovery over next two years could mean additional revenue impact.
- **Deferral of Needed IT investment:** The agency does need and has needed to replace its 30+ year-old licensing system. The combined impact of depleted reserves and uncertain economy will defer this investment until reserves are restored.

Proposed Action Plan

- **Restore sustainable revenue source:** The temporary fee reduction sunsets on June 30, 2021. The agency's 2021-2023 budget presumes this scheduled fee adjustment will take place and that the fee will return to the permanently established rate of $325.
- **Retain Resources within Agency:** Keep the existing positions and resources within the agency so the agency has the ability to restore services based on actual revenue activity.
- **Respond to actual revenues:** Assume the worst, act cautiously restore resources as revenues support it.

Impact of the COVID-19 Pandemic: Managing Cost while Maintaining Service Delivery

- **Reduced Personal Services Costs:** The agency has held vacancies that amount to 10% of total FTE.
    - **Result:** Generated substantial savings – shuffled workload to minimize service impact.
- **Reduced Service & Supply Costs:** The agency was able to manage service and supply costs through targeted reductions across the agency.
    - **Result:** Agency is projected to underspend 2017-2019 S&S, despite making several significant investments in securing the agency's existing IT infrastructure.
- **Streamlined Operations:** The agency has made progress on reducing archaic paper-heavy elements of our process, developing more streamlined electronic workflows.
    - **Result:** Improved efficiency, reduced processing times, more responsive service.

Collaboration with Other Agencies

- **Interagency Compliance Network**: CCB participates with the other agencies in the ICN on an ongoing basis in support of a cohesive and comprehensive business regulatory program:
    - Bureau of Labor and Industries, Department of Consumer and Business Services, Department of Justice, Department of Revenue, Employment Department and Landscape Contractors Board.

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- **Building Codes Division:** BCD and CCB actively seek opportunities to collaborate to try to create a seamless construction regulatory system
    i. CCB shares a daily update of licensee data with BCD that feeds into BCD's statewide permitting system so that permits are only issued to licensed contractors.
    ii. CCB and BCD maintain an IGA to support one another's enforcement efforts. This expands the reach of our individual efforts and supports statewide license enforcement.

Reduction Options – IF NEEDED (No reductions are budgeted in GRB)
The reduction options contained in the GRB would eliminate a total of **8 positions and $1.6 million** in overall costs. The affected programs include enforcement, licensing, information technology and administration/business services.

Current Vacancies
The six vacancies currently being held include:
- HR and Business Services Manager
- Policy Analyst
- Field Investigator
- Fiscal Analyst 1
- Information System Specialist
- Program Support Supervisor

The agency proposes retaining these positions in order to be filled as revenue allows in order to restore services and provide additional support for agency programs and initiatives.

COVID-19 Budget Impacts
To date, the agency has spent approximately $62,000 on COVID-19 related expenses. A breakdown of these approximate costs follows:

1. $44,500: COVID related paid sick time, family leave and time devoted to the care and education of children etc.
2. $16,500: Information technology programs and hardware to support expansion of telework and to remain in compliance with DAS/EIS guidelines.
3. $1,000: Masks, signage, hand sanitizer, disinfecting wipes and other medical and protective supplies.

The agency has sought and been reimbursed for these expenses through DAS administration of the coronavirus relief funds.

PROGRAM PRIORITIZATION FOR 2021-23

Agency Name: CONSTRUCTION CONTRACTORS BOARD

2021-23 Biennium — Agency Number: 91500

Program 1

Program/Division Priorities for 2021-23 Biennium

1	2	3	4	5	6	7	10	14	15	16	17	18	19	20	21	22
Priority (ranked with highest priority first)		Agency Initials	Program or Activity Initials	Program Unit/Activity Description	Identify Key Performance Measure(s)	Primary Purpose Program-Activity Code	OF	TOTAL FUNDS	Pos.	FTE	New or Enhanced Program (Y/N)	Included as Reduction Option (Y/N)	Legal Req. Code (C, D, FM, FO, S)	Legal Citation	Explain What is Mandatory (for C, FM, and FO Only)	Comments on Proposed Changes to CSL included in Agency Request
Agcy	Prgm/ Div															
17	1	CCB	LIC	Licensing of all construction contractors	91500-9 91500-10	3	3,643,605	$ 3,643,605	14	14.00	N	N	S	ORS 701		
17	2	CCB	ENF	Processing of 2-party claims against construction contractors for negligent work, broken contracts, un-paid wages, un-paid supplier claims, etc.	91500-5 91500-7 91500-8	3	1,469,475	$ 1,469,475	5	5.00	N	N	S	ORS 701		
17	3	CCB	ENF	Conduct statewide investigations at construction jobsites and other areas to locate contractors working illegally.	91500-4 91500-6	3	3,442,785	$ 3,442,785	12	11.50	N	Y				
17	4	CCB	EDUC	Education of consumers about using licensed contractor's and educating all construction contractors about laws and rules.	91500-1 91500-2 91500-3	3	1,192,516	$ 1,192,516	4	4.00	N	Y		ORS 701		
17	5	CCB	ENF	Enforcement of all laws and rules relating to construction contractors.	91500-4 91500-6	3	2,850,182	$ 2,850,182	10	10.00	N	N				
17	6	CCB	ADMIN SVCS	Information Technology structures, support and security		4	1,365,044	$ 1,365,044	4	4.00	N	N				
17	7	CCB	ADMIN SVCS	Administrative costs relating to running CCB (Administration, Business Services)		4	648,367	$ 648,367	3	2.50	N	N				
17	8	CCB	ADMIN	Administrative costs relating to running CCB (Administrator & Support Staff)		4	1,039,118	$ 1,039,118	3	3.00	N	N	S			
							15,651,092	$ 15,651,092	55	54.00						

___ Agency Request __X__ Governor's Budget ____ Legislatively Adopted Budget Page 33

PROGRAM PRIORITIZATION FOR 2021-23 CONTINUED

7. Primary Purpose Program/Activity Esists

1 Civil Justice	7 Education & Skill Development
2 Community Development	8 Emergency Services
3 Consumer Protection	9 Environmental Protection
4 Administrative Function	10 Public Health
5 Criminal Justice	11 Recreation, Heritage, or Cultural
6 Economic Development	12 Social Support

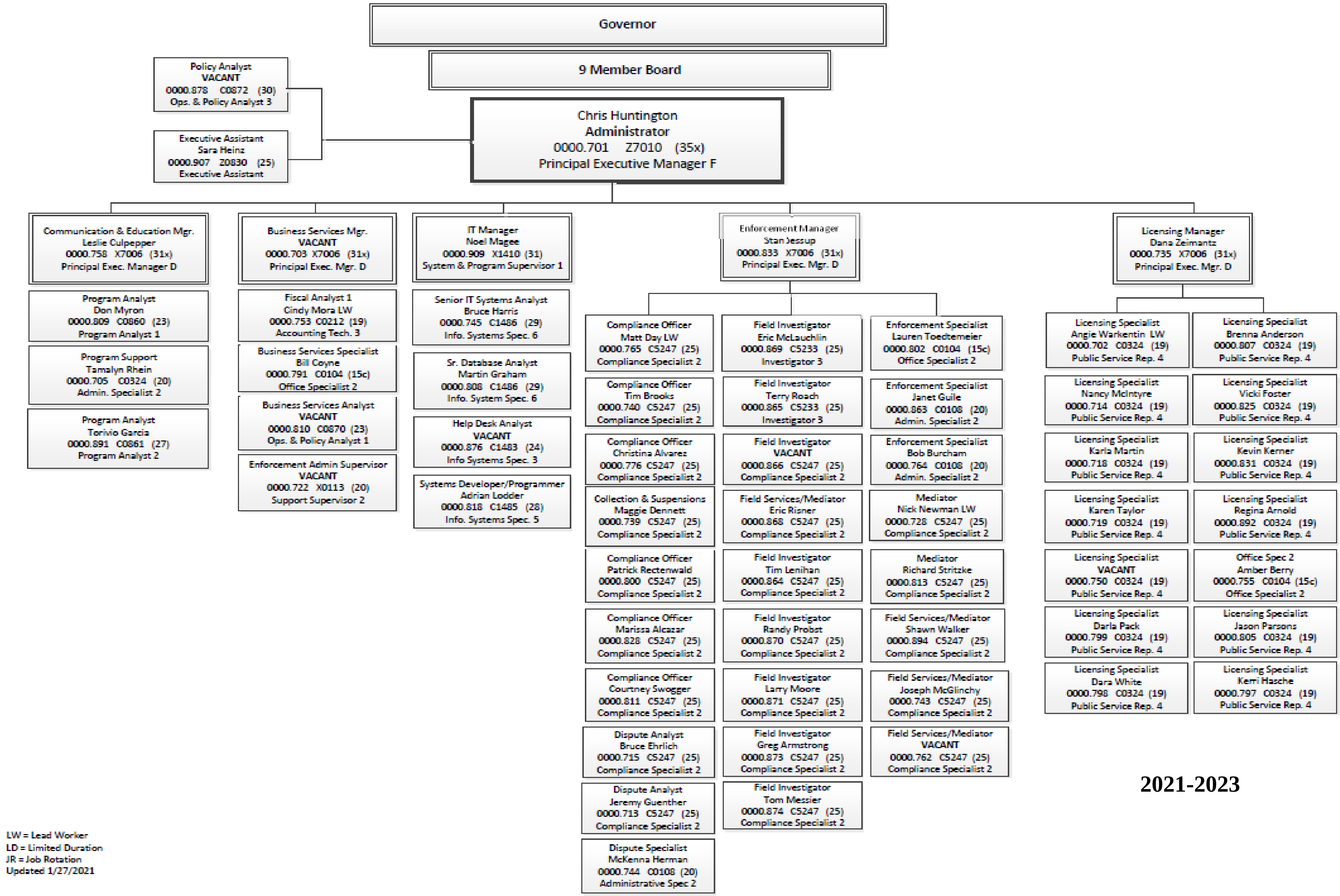
19. Legal Requirement Code

C	Constitutional
D	Debt Service
FM	Federal - Mandatory
FO	Federal - Optional (once you choose to participate, certain requirements exist)
S	Statutory

The agency serves as infrastructure to manage many different regulatory requirements for construction contractors. CCB's programs foster basic business competency, and compliance with revenue, workers compensation law, employment law , building codes, contract law , environmental law and other measures designed to offer protections for Oregon consumers and construction workers.

Current law mandates that the agency structure its programs to ensure that construction contractors maintain compliance with all applicable regulatory requirements in an effort to protect consumers, construction workers, and maintain building standards to ensure safe structures in Oregon. Contractors must understand and comply with a vast number of laws designed to protect the public.

AGENCY SUMMARY



***UPDATED* OTHER FUNDS ENDING BALANCES FOR THE 2019-21 & 2021-23 BIENNIA**

Agency: 91500 Construction Contractor Board
Contact Person (Name & Phone #): Katy Moreland 971-900-9754

(a)	(b)	(c)	(d)	(e)	BDV002AM (f)	November Projections (g)	BDV001AJ (h)	(i)	(j)
Other Fund Type	**Program Area (SCR)**	**Treasury Fund #/Name**	**Category/Description**	**Constitutional and/or Statutory reference**	**2019-21 Ending Balance**		**2021-23 Ending Balance**		**Comments**
					In LAB	**Revised**	**In CSL**	**Revised**	
Limited	91500-017-00	91500-00401	Operations	1975 ch 721 s 10	7,345,452	5,089,607	3,249,837	3,440,369	increase in cash is in part due to reductions in AY21 limitation and spending
		91500-01364	Lead Base Paint	2009 ch 757 s 11		268,146			

	(H) CSL	(i) Revised	
	5,167,221.00	5,357,753.00	Beg (g)
	14,913,612.00	14,913,612.00	Rev
	(16,830,996.00)	(16,830,996.00)	Exp
	3,249,837.00	3,440,369.00	End (i)
Contingency		2,805,166.00	

Objective: Provide updated Other Funds ending balance information for potential use in the development of the 2021-23 legislatively adopted budget.

Instructions:

Column (a): Select one of the following: Limited, Nonlimited, Capital Improvement, Capital Construction, Debt Service, or Debt Service Nonlimited.

Column (b): Select the appropriate Summary Cross Reference number and name from those included in the 2019-21 Legislatively Approved Budget. If this changed from previous structures, please note the change in Comments (Column (j)).

Column (c): Select the appropriate, statutorily established Treasury Fund name and account number where fund balance resides. If the official fund or account name is different than the commonly used reference, please include the working title of the fund or account in Column (j).

Column (d): Select one of the following: Operations, Trust Fund, Grant Fund, Investment Pool, Loan Program, or Other. If "Other", please specify. If "Operations", in Comments (Column (j)), specify the number of months the reserve covers, the methodology used to determine the reserve amount, and the minimum need for cash flow purposes.

Column (e): List the Constitutional, Federal, or Statutory references that establishes or limits the use of the funds.

Columns (f) and (h): Use the appropriate, audited amount from the 2019-21 Legislatively Approved Budget and the 2019-21 Current Service Level at the Agency Request Budget level.

Columns (g) and (i): Provide updated ending balances based on revised expenditure patterns or revenue trends. Do not include adjustments for reduction options that have been submitted unless the options have already been implemented as part of the 2019-21 General Fund approved budget or otherwise incorporated in the 2019-21 LAB. The revised column (i) can be used for the balances included in the Governor's budget if available at the time of submittal. Provide a description of revisions in Comments (Column (j)).

Column (j): **Please note any reasons for significant changes in balances previously reported during the 2019 session.**

Additional Materials: If the revised ending balances (Columns (g) or (i)) reflect a variance greater than 5% or $50,000 from the amounts included in the LAB (Columns (f) or (h)), attach supporting memo or spreadsheet to detail the revised forecast.

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Memorandum

To: CCB Board

From: Chris Huntington

Date: January 13, 2021

Subject: Secretary of State Risk Assessment – Actions Taken **UPDATE**

Background

Based on a request from Construction Contractors Board (CCB) Administrator, the Secretary of State Audits Division (SOS) completed a generalized risk assessment of CCB operations in early 2020. At the completion of the inquiry SOS provided a series of recommended improvements to agency operations in the attached closing letter. The agency continues to make significant progress on issues identified by SOS. This memo provides an updated progress report on items first summarized for the board in a July 31, 2020 memo.

Recommendation 1: Strengthen Cash Controls by Conducting Regular Reconciliations

Related to this matter SOS provided the following specific recommendations:

- Ensure staff responsible for completing cash reconciliations are adequately trained;
- Implement a monthly process that complies with state policy to reconcile SFMA and Treasury ending cash balances; and
- Ensure timely management review and approval of completed reconciliation.

July 2020 Response: *All identified recommendations have been fully implemented as of April, 2020.*

January 2021 UPDATE: Agency leadership will continue to closely monitor the budget services being provided by Department of Administrative Services Shared Financial Services (DAS SFS). The decision to move budget services to SFS in April of 2020 was the most appropriate course of action at the time, given the complex budget issues facing the agency. However, it may well be that the long-term interests of the agency would be best served by restoring in-house budget staffing. Ongoing areas of for attention and assessment:

- Work collaboratively with SFS to ensure accurate and timely budget reports and projections.
- Continue to assess the potential costs and benefits of returning budget services to CCB.
- Protect available position resources in order to keep agency options open.
- Assess the benefits of aligning functions such as accounts receivable (see item 3).

Recommendation 2: Strengthen Information System Controls

Related to this matter, SOS provided the following recommendations:

- Continue working to address vulnerabilities identified in the DAS assessment;
- Formally document IT policies and procedures;
- Review current password requirements and verify compliance with the minimum requirements established by DAS;
- Review system access for all employees at least annually; and
- Develop, document and test a disaster recovery plan to help ensure information can be recovered if the board’s key information systems become unavailable.

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July 2020 Response: *Most recommendations are in the process of implementation with an identified completion date. Some recommendations require substantial investment and will not be completed in short-term though risks associated with the items have been identified, assessed and either mitigated or accepted as within acceptable levels given the totality of circumstances.*

January 2021 UPDATE: The agency has made additional progress on SOS recommendations:

- Formally document IT policies: **COMPLETED** (see also item 4).
- Make password requirements consistent with DAS policy: **COMPLETED**
- Review system access requirements annually: **Remains under investigation**.
- Document *and test* disaster recovery plan: ***Substantially* COMPLETED**. The agency has an established disaster recovery plan and maintains procedures and equipment needed to deploy the plan. Formal documentation of the plan remains in process. Full testing remains infeasible given current resources. *Formalized documentation scheduled for completion – March, 2021.*

More generally, the agency made significant enhancements to the security and viability of our IT infrastructure during 2020. These improvements included substantial enhancements designed to *modernize* hardware and software throughout the agency, consistent with our goal of producing a modern, secure and supported IT infrastructure. Areas of focus for 2021 include:

- Implementation of statewide Enterprise Information Security (EIS) mandated upgrades;
- Deployment of targeted enhancements to existing system functionality to improve operations.

Recommendation 3: Write off Receivables that are Uncollectable

Related to this matter the SOS made a single recommendation:

- Board management should analyze the existing allowance account balance and follow DAS policy to write off the portion that is *known to be uncollectible*.

July 2020 Response: *The agency is currently in the process of formally adopting applicable state policy, confirming that current practices are consistent with adopted state policy, and analyzing existing accounts to determine whether it is appropriate to identify the debt as uncollectable or continue collection efforts. Expected completion is October, 2020.*

January 2021 UPDATE: SOS found that nearly 88% of the agency's outstanding accounts appeared to qualify as *uncollectible*. The agency conducted a comprehensive review of our delinquent accounts. A summary of key findings follows:

- Many accounts were more than five years old (*41%*).
- Several accounts were 10 years old or older (oldest was 17 years old);
- In most cases accounts had received at least three rounds of attempted collection effort:
  - First by CCB, then by Dept. of Revenue (DOR) and finally by private collection firms; and
- Many accounts met all requirements in the Oregon Accounting Manual (OAM) for being deemed uncollectable.

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The issue appears to arise from the absence of a consistent policy and practice of reconciling older accounts and regularly writing off uncollectable debts.[1] The absence of such a policy obscures the agency's collection efforts and misrepresents *expected* collections and cash flow.

Notwithstanding this procedural issue, the agency does appear to maintain reasonably effective in-house collection efforts. The large amount of old and uncollectable debt makes accurate analysis difficult. However, as a percentage of *new accounts added* each year, the agency's collects amounts that reflect approximately **27-28%** of that total. Again, this is a slightly unorthodox method of trying to calculate overall collection. However, the large amount of old uncollectable debt makes traditional method equally unreflective of the agency's efforts. Once the agency completes the process of reconciling and cleaning up accounts, this process should become much easier to track and monitor over time.

Since July, the agency has engaged in a significant overhaul of outstanding accounts. This has been done on an *account-by-account basis* in order to comply with adopted state policy and ensure that any debt that had a reasonable expectation of collection was retained. To date the agency has:

- Requested older files be returned to the agency from DOR and private collection firms;
- Confirmed that significant, repeated collection efforts had been conducted;
- Only in cases where previous efforts had been unsuccessful and the account met the adopted OAM standards the account was deemed uncollectable and written off.

Consistent with the SOS finding, accounts falling into this category formed the vast majority of the agency's outstanding accounts. As of December 31, 2020 the agency has written off as uncollectible approximately $7.0 million of an approximately $10.7 million balance. While this sum is substantial, it reflects **multiple years of otherwise uncollectible debts being cleared.**

The next stage of this initiative will focus on establishing policy and practice that will support an effective and transparent collection effort through ongoing reconciliation and maintenance of open accounts. This effort will focus on the following:

- Adopt a formal accounts receivable handling policy;
- Complete staff training on new policy and practice;
- Maintain ongoing collaboration and reconciliation with DAS and DOR;
- Establish internal reporting mechanism to maintain oversight and accountability.

Recommendation 4: Formally Document Policies and Procedures

Related to this matter, SOS made the following recommendation.

- Board management should continue to document policies and procedures for key operations and processes.

July 2020 Response: *The agency is currently in the process of reviewing all currently adopted policies, drafting policies and procedures for areas not addressed and establishing a formal framework to adopt and update policy on a regular basis. Expected completion is January, 2021.*

[1] The absence of such a policy and practice appears to have been based in the belief that if accounts were designated as uncollectable as a financial matter, the recipient of the penalties could not later be held accountable for the unpaid debt when applying for a future license. This assumption is incorrect and will not guide agency policy moving forward.

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January 2021 UPDATE: This initiative has been ***substantially*** **COMPLETED**, though some outstanding policy adoption will remain ongoing as circumstances warrant.

As of January 1, 2021 the agency has adopted policies or updated and re-issued policies addressing most areas that have daily application to staff throughout the agency. As part of this policy adoption and update process, all staff are required to read and acknowledge each new or updated policy and to re-acknowledge the code of conduct policy. Moving forward, this will be done on an annual basis, as is common practice at other agencies.

Topics covered in completed policies include the following:

- Human Resource Policies (5): Discrimination and harassment, dug free workplace etc.
- Info. Tech. Policies (7): Acceptable use, mobile devices, incident management etc.
- Business Services Policies (2): Use of vehicle, confidential disposal bins.
- Administration (2): Ethics and conflict of interest, code of conduct

Outstanding polices will be completed over the next three months and have more limited application, including the accounts receivable policy notes above, use of the SPOTS card and others.

Recommendation 5: Analyze Operations and Work with LFO to Determine an Appropriate Ending Fund Balance

Related to this matter the SOS made the following specific recommendations:

- Analyze operations and cash flow under normal economic conditions;
- Determine an appropriate ending fund balance and develop a formal policy;
- Establish controls to actively monitor the ending fund balance

July 2020 Response: *While current economic conditions and outlook will make it difficult to implement the needed corrective action in the short-term, the agency should continue to analyze its past experience and document a policy that will provide a policy, historical and financial basis for the agency to withstand future attempts to undercut the long-term viability of the agency. Expected completion – January 2022.*

January 2021 UPDATE: As noted, this area will be a matter of ongoing discussion throughout budget development and implementation in this upcoming biennium.

Office of the Secretary of State

Bev Clarno
Secretary of State

Jeff Morgan
Interim Deputy Secretary of State

Audits Division

Kip R. Memmott, MA, CGAP, CRMA
Director

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

503-986-2255

May 28, 2020

Chris Huntington, Administrator
Oregon Construction Contractors Board
201 High St SE, Suite 600
Salem, Oregon 97301

Dear Mr. Huntington:

We have completed a risk assessment of the Oregon Construction Contractors Board (board). The objective of this review was to gain a general understanding of processes and controls and identify opportunities to improve state operations. To meet this objective, we performed the following limited procedures:

- gained an understanding of board operations, processes, and controls;
- reviewed applicable laws and regulations;
- researched best practices of other state contractor organizations;
- analyzed the board's financial data; and
- reviewed relevant documentation.

Based on our review, we identified the following areas where the board's processes could be improved.

Strengthen Cash Controls by Conducting Cash Reconciliations on a Regular and Timely Basis

State accounting policies require management to reconcile cash recorded in its accounting records (SFMA) to amounts reported in Oregon State Treasury (Treasury) statements. The reconciliation should include a comparison of deposit dates and amounts, in-transit deposits, and outstanding checks. State policy also requires board management to investigate checks that have been outstanding for more than one reconciliation period. Cash reconciliations are an important internal control to provide assurance that actual assets agree to recorded amounts.

On a weekly basis, staff compare the board's daily cash deposits to deposits recorded at the Treasury. This process does not include outstanding checks or a reconciliation of the board's ending cash balances to Treasury ending balances. Management stated that reconciliations between SFMA and Treasury amounts are not performed because staff have not been trained to complete the reconciliations.

Timely and effective reconciliation procedures help to minimize the risk that errors will not be promptly detected and corrected.

We recommend board management enhance existing cash controls with the following actions:

- ensure staff responsible for completing cash reconciliations are adequately trained;
- implement a monthly process that complies with state policy to reconcile SFMA and Treasury ending cash balances; and
- ensure timely management review and approval of completed reconciliations.

Strengthen Information System Controls by Fully Implementing DAS's Recommendations

In May 2019, the Oregon Department of Administrative Services (DAS) completed a controls assessment of the board's information systems. DAS made a number of recommendations to help the board improve system controls. During our risk assessment, we inquired of staff regarding the board's progress towards implementing DAS's recommendations. Staff indicated the board had made limited progress implementing the recommendations.

Although the board has implemented controls to address access to information systems, we found the board's workstation password requirements may not comply with DAS' minimum password requirements. In addition, we found the board does not review user access unless the roles of staff have changed. DAS requires user access reviews to be performed at least annually. We also found the board does not have a disaster recovery plan in the event its information systems become unavailable. Without strong information system controls, the board risks the loss of data or system access due to failed systems or security issues.

We recommend board management consider the following actions:

- Continue working to address vulnerabilities identified in the DAS information system controls assessment; including formally documenting IT policies and procedures;
- Review current password requirements and verify compliance with the minimum requirements established by DAS;
- Review system access for all employees at least annually; and
- Develop, document, and test a disaster recovery plan to help ensure information can be recovered if the board's key information systems become unavailable.

Write off Receivables That Are Uncollectible

State accounting policies require management to make all reasonable efforts to collect receivables due to the state. This includes establishing criteria to determine when receivables are considered uncollectible.

At the end of fiscal year 2019, the board had noncurrent accounts receivable balances totaling more than $9 million. The board's allowance for uncollectible receivables balance totaled nearly $8 million, or 88% of its outstanding receivables. Staff said that the board's practice is to retain all receivables on its books, rather than writing off the portion that is considered uncollectible. Leaving uncollectible receivable balances on the board's financial records may misrepresent potential future cash flow.

We recommend board management analyze the existing allowance account balance and follow DAS policy to write off the portion that is known to be uncollectible.

Formally Document Policies and Procedures

State accounting policies require management to establish and maintain internal controls. These controls help to provide reasonable assurance regarding the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Internal controls include management's policies and procedures that help ensure management directives are carried out. Further, well-designed and documented policies and procedures enhance both accountability and consistency, and can also serve as a training tool for staff.

Management stated that the board's policies and procedures are not fully documented. The board's Business Systems Analyst is currently working to document the board's policies and procedures.

The absence of well-documented policies and procedures increases the risk that management will not timely identify control weaknesses.

We recommend board management continue to document its policies and procedures for key operations and processes.

Analyze Operations and Work with LFO to Determine an Appropriate Ending Fund Balance

The Legislative Fiscal Office (LFO) generally recommends that boards primarily funded with "other fund" revenues maintain an ending fund balance of three to six months of operating reserves.

The board's revenues are generated through contractor licensing fees, miscellaneous fees, and civil penalties and are considered other fund revenues. Over the last several years, an increase in licensees and a decrease in board spending have resulted in more revenues and a high ending fund balance. Over the last two biennia, in accordance with instruction from the LFO, board management has implemented measures to reduce its ending fund balance. Management has concerns that the reduced balance may not be appropriate for the board, and lead to unsustainable business practices.

The board has not determined or established a desired ending fund balance in policy, but is monitoring the board's ending fund balance on a monthly basis. Best practices suggest establishing a policy that defines the desired level of fund balance and specifies factors used to set the desired balance.

We recommend board management consider the following actions:

- analyze operations and cash flow under normal economic conditions;
- use the results of the analysis and discussions with the LFO to determine an appropriate ending fund balance;
- develop a formal policy defining the desired fund balance that includes the factors used to develop the balance; and
- establish controls to actively monitor the ending fund balance.

The purpose of this letter is solely to describe the scope of our review and the results of the procedures performed. Because this was a limited review, we were not required to and did not follow generally accepted government auditing standards.

We appreciate the time, effort and cooperation of department staff. The professionalism we encountered and openness to suggestions have made this a collaborative process. Should you have any questions, please contact Mary Wenger, Deputy Director, or Alan Bell, Principal Auditor, at (503) 986-2255.

Sincerely,

Office of the Secretary of State, Audits Division

cc: Kurt Bolser, Chair, Oregon Construction Contractors Board