

Oregon Department of Aviation: Expenditure Audit Fiscal Year 2005



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Secretary of State Audit Report

Summary

PURPOSE

The purpose of this audit was to comply with Oregon Revised Statute 835.065, which requires the Oregon Audits Division to perform an audit of all necessary expenses of the Oregon Department of Aviation (department).

BACKGROUND

The department began operations as a separate state agency in 2000 as a result of Oregon Revised Statute (ORS) 835.100. The department's goals include developing aviation as an integral part of Oregon's transportation network, encouraging aviation-related economic development, and increasing commercial and general air services in Oregon. In 2003 we performed an audit of the department's fiscal year 2002 expenditures (Audit Report No. 2003-30).

RESULTS IN BRIEF

We found the department's internal controls over payroll and small purchase order transaction (SPOTS) expenditures to be in place and functioning as intended. We also found the department has resolved 10 of 11 previously issued findings.

However, we determined the department did not follow state records retention rules and violated state contracting laws in relation to at least \$1,166,027 in contract payments during fiscal year 2005. Consequently, we question whether the department received goods and services at a fair and reasonable price.

RECOMMENDATION

We recommend department management implement procedures to ensure compliance with state contracting laws and state records retention rules.

AGENCY'S RESPONSE

The Oregon Department of Aviation agrees with the finding and recommendation.

Background

The Oregon Department of Aviation (department) began operations as a separate state agency in 2000 as a result of Oregon Revised Statute (ORS) 835.100. The department's goals include the following:

- Developing aviation as an integral part of Oregon's transportation network;
- Encouraging aviation-related economic development; and
- Increasing commercial air service and general aviation in Oregon.

The department operates 28 state airports and registers all pilots and non-military aircraft based in Oregon. In addition, the department administers various grants for municipal and private airports to promote aviation in Oregon.

The department's total expenditures during fiscal year 2005 were \$5.9 million. Of this amount, the department recorded \$3.2 million in contract payments.

Audit Results

The purpose of our audit was to comply with ORS 835.065, which requires the Oregon Audits Division to perform an audit of all necessary expenses of the department.

To accomplish this purpose, we assessed and tested internal controls over the expenditures incurred by the department during the fiscal year ended June 30, 2005. During our audit, we found the department's internal controls over payroll expenditures and small purchase order transactions (SPOTS) were in place and functioning as intended.

However, we found the department did not appropriately follow state contracting laws and

state records retention rules for public contracting.

State Contracting Laws Not Followed

The department's mission is to enhance the well-being of the people of Oregon by advancing aviation in Oregon. To help fulfill this mission, the department initiates invitations to bid for various construction and maintenance type contracts for work to be performed at airports. For example, contracts may be made for repaving an airport runway, taxiway and/or airport parking lots.

State contracting laws govern the process for government agencies in contracting for services,¹ and the state has adopted rules requiring retention of contracts and related documentation for six to 10 years following contract completion.²

The goal of state contracting laws is to promote open and impartial competition with the objective of obtaining goods and services at a fair and reasonable price. We tested contract payments made to 14 different vendors to ensure the department complied with state contracting laws and contract agreements. Specifically, our tests were designed to determine whether the department:

- Properly solicited and awarded contracts;
- Monitored contracts to ensure goods and services were received in accordance with contract terms; and
- Issued payments in accordance with contract terms.

The department searched for files and contacted vendors but was

unsuccessful in locating contracts and related documentation (e.g., documentation supporting contract solicitation, award and monitoring) for eight of 14 test items totaling \$884,475. In addition, the department was unable to provide documentation to indicate the contracts were properly solicited and awarded for the remaining six test items totaling \$281,552. For one test item, we noted contract payments exceeded the contract agreement by \$34,697 without documentation of a contract amendment.

Overall, we determined the department did not follow state records retention rules and violated state contracting laws in relation to at least \$1,166,027 of the \$3.2 million (36.4 percent) in contract payments recorded during fiscal year 2005. Consequently, we question whether the department received goods and services at a fair and reasonable price.

We recommend department management implement procedures to ensure they comply with state contracting laws and state records retention rules.

Agency's Response

The agency agrees with the overall findings of the Secretary of State Audits Division. The agency also agrees with the findings and recommendations specifically noted relative to state contracts and retention schedules. The agency agrees that the contracts in question, and subsequent, amendments to those contracts were not properly retained by the agency.

New procedures and processes have been initiated by the current staff of the agency to ensure the resolution of this finding. Previous staff and processes utilized relative to the adherence of this item fell short of state laws and rules and accordingly, the agency has implemented internal procedures

¹ Oregon Revised Statutes 279A, B, C

² Oregon Administrative Rule 166-300-015

and controls since the 2005 audit period.

Follow Up on Prior Year Findings

We also performed follow up on previously issued findings. Table 1 summarizes the department's efforts in resolving prior findings, which were included in the following:

- Oregon Department of Aviation: Expenditure Audit Fiscal Year 2002, Audit Report No. 2003-30.
- Oregon Department of Aviation: Change of Director Review, Management Letter No. 109-2005-05-01.
- Oregon Department of Aviation: Investigation of

Inappropriate Expenditures, Management Letter No. 109-2004-10-01.

Objectives, Scope and Methodology

The purpose of our audit was to review the department's expenditures, as required by Oregon Revised Statute 835.065. Our audit included determining if the department's expenditures for the fiscal year ended June 30, 2005:

- Were properly recorded in the accounting system;
- Adhered to prescribed policies and applicable laws and regulations; and
- Were reasonable, adequately supported and had a related business purpose.

We reviewed expenditure accounts that had significant balances reported in the Statewide Financial Management Application (SFMA) as of June 30, 2005 or were considered to have higher risk factors. Specifically, we tested expenditures related to contracts, payroll, and small purchase order transactions (SPOTS).

Our audit work included inquiries of department personnel, a review of department and state policies and procedures and documents relating to our objective.

We conducted our fieldwork from February 2006 to May 2006. We conducted our audit in accordance with generally accepted government auditing standards.

Table 1: Summary of Prior Audit Findings

This section summarizes the Department of Aviation's efforts to resolve prior findings.

Prior Findings	Prior Recommendations	Current Status
Report No. 2003-30 Oregon Department of Aviation Expenditure Audit, Fiscal Year 2002		
<p>Cash Handling Controls The department did not properly segregate cash handling duties as prescribed by the <i>Oregon Accounting Manual</i>.</p> <p>Specifically:</p> <ul style="list-style-type: none"> • Only one employee opened the mail, which may have included cash payments. • The department did not create a receipt log to ensure that all payments received were properly recorded. • After the mail was opened, payments and license documentation were then forwarded to a second employee for processing. This second employee recorded all payments, including those received over the counter from walk-in customers, in the computer licensing system; distributed pilot licenses and aircraft registration certificates to customers; and prepared the deposit. • The department had not developed compensating controls, such as reconciling pilot licenses and aircraft registrations issued to cash receipts or training other employees to process cash. • The department did not deposit cash receipts in a timely manner. 	<p>Require two employees to open the mail when payments are received.</p> <p>Create a receipt log of all payments received and have an employee who does not have cash handling duties reconcile this log to the actual deposits.</p> <p>Separate cash processing duties from record keeping duties to the extent allowed by current staffing levels to ensure that one employee cannot process a transaction from beginning to end.</p> <p>Require an employee who does not have cash handling duties to perform regular reconciliations of payments received and deposited to pilot licenses and aircraft registrations sold. Train additional employees on cash processing procedures.</p> <p>Ensure that cash receipts are deposited daily or file an exemption request as described in ORS 293.265.</p>	<p>Resolved. Due to limited staff, the department has one person open the mail and restrictively endorse checks.</p> <p>Resolved. The department keeps a log of cash receipts maintained by each person opening the mail.</p> <p>Resolved. Cash handling duties are appropriately segregated.</p> <p>Resolved. Cash deposits are reconciled by someone other than the person with cash handling duties. Employees receive on-the-job training on cash processing procedures.</p> <p>Resolved. Cash receipts are deposited daily.</p>
<p>Facilities Maintenance Contract The department did not have a formal contract with the Oregon Department of Transportation (ODOT) covering the services performed by ODOT.</p>	<p>Establish a formal intergovernmental agreement (IGA) with ODOT for provided facilities maintenance services.</p>	<p>Partially Resolved. The department has a draft IGA for ODOT services.</p>

Prior Findings	Prior Recommendations	Current Status
<p>Infrastructure Valuation</p> <p>The department included land costs of \$243,250 as infrastructure and made a clerical error that undervalued the cost of the same project \$14,839. As a result, the net overstatement of infrastructure assets was \$228,411 which resulted in an incorrect calculation of depreciation expense.</p>	<p>Review its valuations of infrastructure assets to ensure that they are complete and accurate and, in particular, do not include costs for non-depreciable assets such as land.</p>	<p>Resolved. Valuations of infrastructure assets have been reviewed by the department's Department of Administrative Services accountant; land is not included as infrastructure.</p>
<p>The department had not developed policies and procedures to specify when construction projects should be classified as infrastructure assets, which are capitalized and depreciated, or maintenance expenses, which are expensed when incurred.</p>	<p>Develop policies and procedures relating to the valuation of infrastructure and apply them retroactively to the year ended June 30, 2002, as well as to future years. Specifically, the policies and procedures should be consistent with the requirements of governmental accounting and reporting standards and include:</p> <ul style="list-style-type: none"> • A determination as to when an asset is considered to be placed into operation for financial reporting purposes to begin depreciation. • The distinction between infrastructure projects, which are capitalized and depreciated over the asset's useful life, and maintenance projects, which should be expensed when incurred. 	<p>Resolved. We determined the department's procedures are consistent with governmental accounting and reporting standards' requirements. These include:</p> <ul style="list-style-type: none"> • Determining when an asset is placed into operation. • Distinguishing between infrastructure and maintenance projects.
<p>Change of Director Review, Management Letter: 109-2005-05-01</p>		
<p>The department did not follow state policy that requires the review and approval of directors' payroll, travel reimbursements and travel advances by someone with written delegated authority.</p> <p>The former director did not obtain written authorization on two out-of-state travel occasions.</p>	<p>Develop and implement policies and procedures to ensure the appropriate review and approval of the director's payroll, travel reimbursements, travel advances, and other financial transactions.</p> <p>Follow state policy regarding the approval for out of state travel.</p>	<p>Resolved. The State Airports Manager is authorized to review and approve the director's payroll. The Director's travel is approved by the Governor's office.</p> <p>Resolved. The current director followed state policy regarding the approval for out of state travel.</p>
<p>Investigation of Inappropriate Expenditures, Management Letter: 109-2004-10-01</p>		
<p>The department did not always clearly document how events it sponsored promoted aviation.</p>	<p>Clearly document the purpose of any future events the department sponsors.</p> <p>Document how the use of state funds for these events is meeting the mission of promoting aviation in the state in order to ensure proper accountability for the use of state funds.</p>	<p>Resolved. The department's current policy is to not financially sponsor any aviation events in the state.</p>



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*The courtesies and cooperation extended by the staff of the Oregon
Department of Aviation were commendable and much appreciated.*

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