



# Secretary of State Audit Report

## Oregon Department of Aviation: Controls Over Contract Monitoring Should be Improved to Better Protect State Assets

### Summary

#### PURPOSE

Our audit objective was to evaluate the effectiveness of the Department of Aviation's (department) controls over expenditures for the 2005-2007 biennium. We completed this work to fulfill the requirement set forth in Oregon Revised Statute 835.065 that the Secretary of State audit all necessary expenses of the department.

#### RESULTS IN BRIEF

We found that the department:

- should improve controls over contract monitoring; and
- adequately reconciled and properly coded expenditures for a federal grant award.

#### RECOMMENDATIONS

We recommend department management:

- verify that changes made to its contract monitoring system ensures that expenditures are within contract terms;
- ensure valid contracts are in place and appropriate signatures and approvals are obtained prior to making contract payments;
- correct any remaining coding errors in the accounting system; and
- implement controls to ensure future expenditures are properly coded to the right project and federal grant award.

#### AGENCY'S RESPONSE

The Department of Aviation generally agrees with the recommendation.

## Background

The mission of the Oregon Department of Aviation (department) is to support Oregon communities by preserving and enhancing aviation.

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 receives federal funds for capital construction projects, system planning, and development of state-owned and public-use airports.

The department's legislatively adopted budget for the 2005-2007 biennium was \$17.1 million.

Oregon Revised Statute 835.065 requires the Secretary of State to perform an audit of all necessary expenses of the department. To fulfill this requirement, we evaluated the effectiveness of the department's internal controls. We limited our review to expenditures the department incurred during the 2005-2007 biennium.

## Audit Results

We found the department should improve controls over contract monitoring to better protect state assets. We also found that the department had adequately reconciled and properly coded expenditures for a federal grant award and that expenditures tested had a relevant business purpose.

### Contract Monitoring Should Be Improved

The department contracts for various construction and maintenance services at airports. For example, the department contracts for repaving airport runways and taxiways.

Oregon laws governing how state agencies may contract for services

state that a contract, including associated change orders, is not valid or effective without the written approval of the contracting agency. In addition, sound contract monitoring practices include procedures to ensure agencies and contractors comply with contracting laws, deliverables are received and agree to contract terms, and payments are made only for valid contracts in accordance with contract terms and conditions.

We found that department management should improve its monitoring controls over contracts. Specifically, we reviewed 37 contract payments and noted the following:

- The department made payments on two expired contracts. In one instance, the department made a payment in October 2006 on a contract that had expired in June 2001. In the other instance, the department made a payment on an invoice dated September 2006, which stated it was for work performed through August 2006, 8 months after the contract had expired in December 2005.
- For one contract, the department did not ensure change orders were properly approved and signed by the department.
- For one contract, which exceeded \$75,000, the department did not obtain legal sufficiency review, as required by ORS 291.047.
- For another contract that exceeded \$75,000, the department did not obtain legal sufficiency review and made contract payments after the contract had expired. Although the department had approved amendments for this contract that increased the total contract amount, they did not extend the contract expiration date. The department subsequently entered into a new contract in

October 2008 to include the services contained in the expired contract. The department appropriately obtained a legal sufficiency review for this contract.

- The department could not locate one intergovernmental agreement we requested for work at a municipal airport.
- The department made duplicate payments to two contractors that together totaled \$69,747. The contractors identified the duplicate payments and notified the department which then recovered the overpayments.

Additionally, when reviewing expenditures for another contract, we identified two instances in which payments exceeded the contract amount. In November 2005, payments exceeded the contract amount by \$5,233; change orders were not sufficient to cover this amount until May 2006. In addition, in June 2006, payments exceeded the contract amount by \$65,125; change orders were not sufficient to cover this amount until January 2007. These instances occurred because the department was not monitoring the contract to ensure payments did not exceed the authorized contract amount.

Without adequate monitoring controls over contracts, the department is not assured that contract responsibilities are performed and goods and services are received in accordance with contract terms. To better protect state resources, we believe the department should implement adequate contract monitoring controls.

During our audit, department management developed a process to assist them in monitoring department contracts.

**We recommend** department management verify the changes made to its monitoring system will appropriately monitor contracts to ensure expenditures are within contract terms, valid contracts are

in place and appropriate signatures and approvals are obtained prior to making contract payments.

### Grant Reconciliation

At the beginning of our audit, department management acknowledged that in the past, expenditures were not always properly coded in the accounting system to the correct project and federal grant award. Proper coding ensures that expenditures are used for the right purpose as agreed to in the federal grant award. According to the department, beginning in July 2006, the Federal Aviation Administration required the department to submit expenditure documentation to them before receiving federal funds. Prior to this time, the department was allowed to log into the federal system and draw down federal funds without providing documentation.

To correct the coding errors, the department had staff review and reconcile several federal grant awards. This entailed reviewing invoices and preparing spreadsheets to track expenditures by project and federal grant award. Staff then reconciled the department's expenditures under the grants to the federal cash draw downs for each award.

We reviewed one federal grant award from the 2005-2007 biennium to determine if department expenditures were adequately supported and properly coded and reconciled to the grant award. We found that the department performed adequate reconciliation procedures for this grant award and that expenditures were adequately supported.

**We recommend** department management correct any remaining coding errors in the accounting system. We also recommend department management implement controls to ensure future expenditures are properly coded to the right project and federal grant award.

### Objectives, Scope and Methodology

As required by ORS 835.065, the objective of our audit was to evaluate the effectiveness of internal controls over expenditures at the department. Specifically, we determined whether the department's expenditures for the biennium ended June 30, 2007 were:

- properly authorized, reasonable, adequately supported, and had a relevant business purpose;
- in accordance with contract requirements; and
- properly coded to the correct grant award, as applicable.

Our work included reviewing the department's grant reconciliation for one grant award to determine if expenditures were adequately supported and reconciled to the federal grant award.

To accomplish our audit objectives, we made inquiries of department personnel, reviewed applicable policies and procedures, and reviewed supporting expenditure documentation. We reviewed accounts that had significant expenditures as reported in the state's accounting system for the biennium ended June 30, 2007. Specifically, we tested expenditures coded to the following accounts: distribution to cities, distribution to counties, facilities maintenance, and non-IT related professional services expenditures.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



# Oregon

Theodore R. Kulongoski, Governor



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June 25 2009

The Honorable Kate Brown  
Secretary of State, State of Oregon  
ATTN: Audits Division, ATTN: Director Gary Blackmer  
255 Capitol Street NE, Suite 500  
Salem, OR 97310

Re: Audit Report No. 2009-00, Oregon Department of Aviation

Mr. Blackmer;

The Oregon Department of Aviation wishes to express our gratitude for your hard work and efforts to audit the expenditures and contracts for the period of 2005-2007. We found your staff amiable and instructive during the period of the audit and the briefings. Overall, the department agrees with the recommendations in this audit. As the audit period extended over fifteen (15) months due to stops and re-starts, this department implemented the necessary monitoring controls and grant reconciliations to ensure that all expenditures are properly represented and federal grants are reconciled with state and federal records.

To some of the audit results contained within this report, this department requests that the following responses be incorporated with the final report and release of information:

(1) Audit Result: "For one contract, which exceeded \$75,000, the department did not obtain legal sufficiency review, as required by ORS 291.047."

Department Comment: The department concurs that this occurred. As DAS administrative rule was being changed to reflect the higher threshold of \$100,000 for legal sufficiency review, the department erred in approving a work order contract which exceeded the \$75,000 threshold in effect prior to the effective date of the change to the higher amount.

(2) Audit Result: "In the other instance, the department made a payment for services provided 8 months after a contract had expired in December 2005."

Department Comment: The department concurs with this comment with the additional statement that payments for work performed are sometimes made after contract expiry. In this instance, it was not clearly established within this audit that the work was actually performed after contract expiry. Contract payments are not authorized until the department confirms that the contractor fully meets contract specifications and project completion. Even though the vendor's invoice reflected work performed after contract expiry date, the department believes that work was completed prior to contract expiry and that payment was not made until delivery of contract requirements was confirmed by the department.

Again, the department agrees with the overall recommendations in this report.

Respectfully,



Daniel E. Clem

Cc:

Chris Warner, Governor's Policy Advisor for Transportation

Mark Gardiner, Chair, Oregon Aviation Board



**Secretary of State  
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*Courtesies and cooperation extended by officials and staff of the Oregon Department of Aviation were commendable and much appreciated.*

*This report, a public record, is intended to promote the best possible management of public resources. Copies may be obtained:*

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