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Auditing for a Better Oregon

April 1, 2003

Susan Castillo, Superintendent of Public Instruction
Department of Education
255 Capitol Street NE
Salem, Oregon 97310-0203

Dear Ms. Castillo:

During our audit of contracting practices, in addition to those items on which we reported, we noted the following issues that we felt should be brought to your attention.

Background

We reviewed four intergovernmental agreements and related amendments used to provide education services to students enrolled in the State's Youth Corrections Education Program (YCEP). To provide these services, the department enters into the intergovernmental agreements with Education Service Districts (ESD). During our review of the agreements, we noted the following areas where controls could be improved:

- Documentation was not kept to support determination of agreement price. Documentation also was not kept to explain why one of the amendments, which increased an agreement by $45,825, was made. Department program personnel explained that the starting point for funding of the YCEP agreements is a per-student cost that is distributed equally among the ESDs. This amount is then adjusted to reflect special circumstances affecting the ESD, such as equipment or other needs. However, program personnel were unable to provide auditors with documentation to support agreement amounts and ensure that ESDs were receiving equitable compensation.

- Processing of quarterly advance payments do not appear to comply with federal cash management regulations. Federal cash management regulations require cash advances be limited to minimum amounts necessary to meet actual and immediate cash needs. The timing and amount of cash advances is to be as close to the cash outlay as administratively feasible. According to department accounting staff, the department has determined that "not exceeding one month" meets this requirement for the department's Federal Grants. This determination appears reasonable.

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- For the agreements reviewed, program personnel did not appear to be monitoring the final expenditure reports provided by the ESDs to ensure compliance with agreement terms and reasonableness of reported amounts. Agreement terms require that the final 5 percent of the agreement amount will be paid to the ESD based upon actual costs reported in a final expenditure report. Less than 5 percent may be paid to the ESD if actual costs do not equal or exceed the agreement amount. If actual costs are less than 95 percent of the agreement amount, the agreement requires the ESD to reimburse the department for the difference. Our review of Intergovernmental Agreements for two ESDs showed that actual reported expenditures agreed to the agreement amount. It appears unlikely that this would occur if actual expenditures were reported. Department personnel told us that a match might occur if the ESD spent more than was provided through the agreement.

We recommend that the department:

- Establish written policies and procedures that identify price determination processes, and require documentation be maintained for price determinations and changes in agreement terms or amounts. Policies and procedures should include monitoring requirements, such as a review of final expenditure reports for reasonableness. The department should also consider periodic on-sight review of ESD records.

- Change future agreements to require monthly, rather than quarterly, advance payments. Also, require interim expense reports from ESDs to support that funds provided were used to meet actual and immediate cash needs.

- Require ESDs to report actual expenditures, even if greater than the agreement amount.

Background

The department can improve its review and approval of contract invoices. According to the Oregon Accounting Manual, invoice approval means that the materials, services, or other expenses have been furnished, rendered or expended on behalf of the state. Approval also means that the expenditure is appropriate and authorized. During our review we identified three contract overpayments totaling approximately $760. For one overpayment of $300, the department paid the contractor more than the invoiced amount. A second overpayment for $350 occurred because the department paid for a contractor's general liability insurance, in violation of contract terms. A third overpayment for approximately $110 occurred when the department paid for travel outside of the contract and did not deduct it from the contract amount paid the contractor. The contract did not allow for payment of travel expenses. We also identified a payment of approximately $29 that appears to be for duplicate travel expenses, which we question. In addition, we identified:

- A contract for AIDS/HIV awareness speakers with invoices that could not be reconciled to services provided. Further, invoices showed that payroll taxes and benefit reimbursements to the contractor ranged from a low of 9 percent to a high of 84 percent of payroll for the last invoice submitted. Program personnel told us that the invoices were approved based on whether or not enough money was encumbered to cover the costs.

- Invoices for one contract showed hourly rates which started at $37.50 were increased to $50 and finally to $100. Documentation was located to explain the increase from $37.50 to $50, but no documentation was located to support the increase to $100 per hour. According to the contract administrator, the $100 per hour rate was paid because the work was of a higher quality. The contract did not specify a rate. Without documenting and determining the appropriateness of the rate, the department may have paid more than necessary for the work.

- The department approved and paid an invoice in the approximate amount of $1,500 twice. The contractor credited the department with the duplicate payment.

- An invoice for approximately $327,000 was approved contingent on receipt of a Quality Assurance Report; however, payment was made before the report was received. The contract administrator appears to have been in contact with the consultant producing the report prior to payment. The report appeared to indicate that the project was on track and payment was appropriate. Payment should have been held, however, until the report was received.

- Some payments for two contracts were charged against wrong encumbrance numbers.

We recommend that the department:

- Review overpayments and questioned costs, and consult with the Department of Justice if necessary to determine appropriateness and potential recovery of any amounts improperly paid.

- Conduct contract training on invoice review and approval.

Background

In our report, we noted instances in which work was performed without a contract. We also reported instances in which work was performed prior to signing a contract and prior to advertising. We considered these to be reportable exceptions because they resulted in questionable payments and, in some cases, support that preferential treatment was given some contractors. During our audit we also identified the following exceptions to state contracting rules that appear to be less serious, but which we would like to communicate to management:

- For 12 contracts totaling approximately $16,500 for facilitators, scorers, writers, or assessment raters, some or all of the work was performed prior to receipt of a signed contract. We understand that the department is working with the Department of Justice and the Department of Administrative Services on resolving this issue.

- For eight contracts totaling approximately $160,000, work was started prior to receipt of a contract signed by all parties. None of these contracts were related to assessment test writing, scoring, facilitating, or rating. For these contracts, work appeared to have been performed after solicitation for bids, when applicable.

- Two contractors were paid approximately $2,300 from an Education Service District (ESD) for work performed for the department without a signed contract. Department management had previously identified that work for the unsigned contracts had already been performed and cancelled the pending contracts. Both department program and ESD personnel told auditors that the ESD expected reimbursement for payments made to the contractors through an Intergovernmental Agreement between the ESD and the department. Department management assured auditors that reimbursement would not be paid to the ESD.

We recommend that the department:

- Implement the recommendations in the report addressing compliance with contracting rules, and thereby correcting these less significant findings, as well.

- Continue working with the Department of Justice and the Department of Administrative Services to resolve the issues surrounding assessment related contracts.

Background

An agency may not contract for certain services normally provided by another state agency without approval. This specifically includes printing services performed by the Department of Administrative Services (DAS). However, we found one instance in which there was no documentation that approval was obtained from DAS to outsource printing services purchased within a $25,000 contract.

We recommend that the department include in its contracting procedures a step to seek appropriate approval when required for services such as printing.

Should you have any questions regarding these issues, please feel free to call me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

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Audit Administrator

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