



Auditing for a Better Oregon

August 24, 2005

Lorna Youngs, Interim Director
Oregon Department of Transportation
355 Capitol Street NE, Rm. 135
Salem, OR 97301-3871

Dear Ms. Youngs:

We are currently engaged in an audit at the department, the objective of which is to determine whether the OTIA III State Bridge Delivery Program planning process resulted in cost-effective repair or replacement decisions. During the course of our survey work that preceded the audit, we identified management risks associated with the program that we felt warranted the department's attention. This letter summarizes those risks. It includes only the risks we rated above medium. We have included background information, as well as potential mitigating actions the department could take to address each risk. This summary is intended to be informational in nature and is not an all inclusive or formal presentation of audit findings or recommendations.

We appreciate the time and effort your staff has provided to date. Should you have any questions, please feel free to contact me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

William Garber, MPA, CGFM
Audit Manager

WG:bk
enclosure
cc: John Jackley, Executive Officer for Highway Division

Management Letter No. 730-2005-08-01

1. The department may lack sufficient staff to audit OTIA III contract costs and compliance.

Among other functions, the department's External Audit Section performs cost and compliance audits, including a review of the rates to be charged, allowability of costs, and accuracy of the billings submitted. Currently, the department has three positions allotted to the group, a manager and two staff. All three positions were recently filled. At the same time, the department is significantly increasing the use of contractors because of OTIA III projects.

The three positions for the external audit function may be inadequate to monitor contract compliance for the increased number of projects being outsourced. In fact, Federal Highway Administration district personnel commented on the low number of external auditors at the department and noted that other states have a larger number of employees committed to this function (five to six).

Potential Mitigating Action:

- Evaluate the department's capability to audit OTIA III contract costs and compliance. Consider adding staff resources as needed.

2. Inaccuracies in the department's OTIA III bridge delivery program database may compromise the department's management of the OTIA III program.

The department contracted with two firms to complete engineering baseline reports (EBRs) on bridges scheduled to be replaced or repaired with OTIA III funds. One of the deliverables provided by the firms was a database populated with information from the EBRs and the department bridge files. One of the purposes of the database is for storing, querying, and reporting OTIA III bridge information.

During our survey, we found that the baseline engineering information in the database contained inaccuracies. Specifically, we randomly selected 30 bridges and compared information in six database fields with the EBRs for those bridges. Approximately 8 percent of the 180 fields had discrepancies between the database and the EBRs. We also found an error in the filter for bridges exhibiting scour (the erosion of streambed soils and sediment that support bridge foundations). While the database indicates 312 bridges have evidence of scour, there are fewer than 312 bridges on the OTIA III bridge list that cross water.

Potential Mitigating Action:

- Review database information to ensure that it is sufficiently reliable and filters are functioning as intended. If insufficiencies are noted, the department should require the contractor to make any necessary corrections.

3. The department may be paying mobilization costs that are higher than necessary for some bridge projects.

Mobilization includes the process of moving personnel, equipment, supplies and incidentals to the project site. The department normally adds a flat 10 percent of the base structure cost to estimate mobilization costs. This practice does not take into account differences in projects due to such factors as contract size, project complexity, geographical location or rural vs. urban project site. Therefore, to the extent that the department uses the flat percentage to determine the reasonableness of bids received, it may not provide an adequate basis to evaluate mobilization costs.

Potential Mitigating Factor:

- Consider whether the current method of estimating mobilization costs allows the department to determine the reasonableness of bids received and modify the process as necessary.