

Office of the Secretary of State

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Matthew Garrett, Director
Department of Transportation
355 Capitol Street NE, Room 135
Salem, OR 97301-3871

Dear Mr. Garrett:

We have concluded our investigation of allegations relating to activities at the Oregon Department of Transportation's (department) Iron Mountain Rock Quarry. The Audits Division received allegations in December 2006 that rock was removed from the quarry on weekends contrary to contract provisions, and rock taken from the quarry was not properly accounted for by department personnel.

The purpose of our investigation was to determine the validity of the allegations. To help make that determination, we requested the assistance of personnel from the department's Audits Services, who reviewed the contract, interviewed responsible parties, and examined department documentation and documentation provided by the contractor.

Background

In July 2003, the department entered into an exchange contract with Cedar Creek Quarries, Inc., Road and Driveway (contractor). The contract specified that the contractor would mine, crush, haul, and store 52,000 cubic yards of gravel for the department from the Iron Mountain Rock Quarry in Newport, Oregon, in exchange for a maximum of 208,000 cubic yards of the same material. Because Iron Mountain has certain environmental restrictions, activities at the quarry are limited annually to four months between September 1 and December 31. In addition, because the quarry is near a residential area, operations are further restricted to 8 a.m. to 8 p.m., Monday through Friday; weekend activity is prohibited. The department estimated the value of the contract at approximately \$700,000. As of February 2007, the contractor had reported it had removed 139,902 cubic yards of the total exchange amount of 208,000 cubic yards of rock. The contract will expire in 2011.

Review Results

On May 9, 2007, Audits Services personnel provided us with the results of their review. They determined that the allegations were unsubstantiated; however, they identified additional controls that the department could implement to improve monitoring of the Iron Mountain Rock Quarry contract. Those controls included, among other items, the following:

- Obtaining detailed reports from the contractor about rock hauls from the quarry;
- Requiring the contractor to provide a schedule of hauls from the quarry so the department could have appropriate personnel present; and
- Removing the contractor's lock on the quarry gate at the end of the season and replacing it with a department lock.

As part of our investigation, we examined documents that Audits Services personnel gathered for their review. Based on our examination, we identified an additional step the department could take to further strengthen controls over the Iron Mountain Rock Quarry contract.

Further Improve Accountability

If the department implements the Audits Services' recommendations as noted above, it should ensure that rock is not removed during the off-season. The contractor, however, would continue to have its own lock on the quarry during the season and would be able to enter the quarry at will. Consequently, the department would not have complete assurance that only the rock hauls agreed to in the contract occur. Therefore, **we recommend** department management implement measures to further improve accountability for the rock removed from the quarry. Unless the department can monitor and inventory the rock removed, or otherwise detect when rock loads are taken from the quarry, it should consider placing a permanent lock on the gate and require a department employee to be present at each haul.

We appreciate your staff's time and cooperation during this investigation. If you have any questions, please contact me at (503) 986-2351.

Sincerely,
OREGON AUDITS DIVISION

V. Dale Bond, CPA, CISA, CFE
Audit Manager

VDB:brk

cc: Marlene Hartinger, Chief Auditor, Central Services Division