

**Office of the Secretary of State**

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October 6, 2008

Timothy F. McLain, Superintendent  
Oregon State Police  
255 Capitol Street NE, 4th Floor  
Salem, Oregon 97310

Dear Mr. McLain:

We have completed our review of selected procurement and contracting practices of the Oregon State Police (department). In October 2005, the Audits Division received a legislative request to review the department's procurement practices. In November 2006 and December 2006, we also received allegations through the Government Waste Hotline that the department had not placed purchased vehicles into service in a timely manner and that the department did not comply with state contracting rules for outfitting some patrol vehicles.

The purposes of our review were to respond to the legislative request and to assess the validity of the allegations. Specifically, we intended to determine whether the department:

- implemented controls to help ensure efficient, effective, and accountable procurement processes;
- complied with state procurement laws that prohibit the fragmenting of purchases;
- complied with state contracting rules for outfitting patrol vehicles; and
- ensured efficiencies in placing vehicles into service.

Based on our review, we identified opportunities for the department to improve its procurement processes and controls. We also substantiated the allegations received through the hotline. In general, we found the department had not implemented effective controls to help ensure a sound purchasing process and did not have policies and procedures directing procurement and contracting practices. These weaknesses contributed to the conditions we identified. Our findings and recommendations are discussed in the accompanying results section.

**Methodology**

We examined documents and performed certain procedures to follow up on the legislative request and the allegations. We interviewed department staff responsible for the procurement process and managing the department's fleet. We also obtained and reviewed department expenditure data from the state accounting system. We looked at two sets of expenditure transactions: those less than \$5,000 for our tests of potential fragmentation and those of \$5,000 or more to determine whether required competitive procurement practices were followed. In addition, we analyzed data from the department's fleet tracking system. Through observation, we confirmed the existence and location of recorded fleet vehicles. We also examined documentation relating to selected procurement transactions that occurred from June 2005

through February 2007. Furthermore, we reviewed pertinent laws, rules and department practices. We conducted our fieldwork from June 2006 through June 2007.

## **Results**

### **Procurement Process Controls**

Policies and procedures in the *Oregon Accounting Manual* describe the expectation for agencies to provide reasonable assurance that transactions are accurate, properly recorded and executed in accordance with management's authorizations. Methods to achieve these objectives include the following:

- maintaining written documentation evidencing delegation of expenditure decision authority to specific individuals;
- implementing the use of purchase orders as a key control for authorizing expenditures;
- retaining source documents such as vendor invoices, receiving records, and other supporting information to provide clear evidence of transaction authenticity, purpose and authorization; and
- establishing policies relating to appropriate business practices.

Our review of the department's procurement process found that management had not implemented adequate controls to help ensure efficient, effective, and accountable processes. Specifically, we found:

- Expenditure decision authority had not been formally delegated to specific individuals. As a result, 2 of 35 (6 percent) purchases we reviewed were approved for payment by an employee whose expenditure authority was not documented.
- Products were sometimes ordered or invoiced prior to approval of a purchase request. Delays in approving the purchase requests ranged from 6 to 43 calendar days after the purchase date. We identified 5 of 35 (14 percent) such instances.
- Required documentation was not always available. According to department personnel, purchases greater than \$2,500 were required to have a purchase order. Our review of 35 procurements greater than \$2,500 identified four purchases (11 percent) for which a purchase order was not available. Furthermore, for one purchase of approximately \$2,900, the department could not locate any documentation to support the payment.
- Policies had not been fully developed to outline the process and controls for procuring goods and services.

The aforementioned conditions existed because management had not made it a priority to establish formal procurement processes and sufficient controls to ensure appropriate procedures were followed. As a result, the department was not always in compliance with state purchasing rules and may not have obtained goods and services at the best price.

**We recommend** department management establish formal procurement processes, complete with written delegation of expenditure authority, policies and procedures for complying with state purchasing rules, and controls for ensuring compliance with department policies and procedures.

### **Fragmented Purchases**

Oregon law prohibits agencies from artificially dividing or fragmenting purchases to avoid more stringent requirements for competitive purchasing. Small procurements below a threshold of \$5,000 can be awarded in any manner deemed practical or convenient by the contracting agency, including by direct selection or award. Purchases of \$5,000 or more, however, require at least three informally solicited competitive price quotes or competitive proposals from prospective contractors. Documenting the sources of the quotes or proposals is also required.

We examined 15 of the department's procurement transactions under \$5,000 and identified three transactions that appeared fragmented. Further review disclosed combined purchases exceeding \$13,000 in an eight-month period for similar products from one vendor and \$16,000 in an eight-month period from a second vendor. Payments to a third vendor exceeded \$22,000 for a single purchase. Staff shortages may have contributed to these occurrences. According to Legislative Fiscal Office's analysis of the department's 2005-07 Legislatively Adopted Budget, department management had made policy decisions that reduced staffing in administrative functions. According to department management, staff in the contracting and purchasing unit was limited to one employee. Management explained that as a result of this staff shortage, the department did not have purchasing policies and procedures in place that would guide staff in appropriate purchasing practices.

**We recommend** department management develop and implement controls to avoid fragmentation and ensure a competitive purchasing process is used when required.

### **Contract for the Outfitting of Patrol Vehicles**

Oregon public contracting rules require impartial and open competition. In addition, contracting agencies are to award public contracts for goods or services by competitive sealed bidding or competitive sealed proposals. If a contract is awarded by competitive sealed bidding, the contracting agency is to award the contract to the lowest responsible bidder whose bid substantially complies with the requirements and criteria set forth in the invitation to bid. A bidder meeting these criteria would be considered "responsive."

We received allegations in November 2006 that the department did not comply with contracting rules when it awarded a contract for outfitting some patrol vehicles. Specifically, it was alleged that (1) the contract was awarded to a non-responsive bidder; (2) the successful bidder was a former employee of the department; (3) the successful bidder was performing work on the vehicles required by the contract prior to the date the invitation to bid was released; and (4) vehicles were relocated from the department's fleet facilities to private property so the former employee could perform services that should have been under the contract.

We substantiated the allegations described above. Human error and the department's lack of policies and procedures addressing procurement practices contributed to the situation that triggered the allegations.

#### **(1) Contract Awarded to a Non-responsive Bidder**

In March and April 2006, the department purchased 45 patrol vehicles. Before the vehicles could be placed into service, they were outfitted with specific additions such as light bars, siren speakers, wrap-around push bumpers, antenna mounts, and vinyl

graphics. To have this work performed, the department placed an invitation to bid (ITB) for these services on ORPIN, the state's contract advertising website.

Three bids were received in response to the ITB. According to department management, when the bids were evaluated, staff erred in determining two of the bids were responsive, when, in fact, none of the three bids fully complied with the requirements set forth in the ITB. Before this error was caught, however, the department awarded the contract to the lowest bidder in late September 2006. Subsequent action by an unsuccessful bidder before the contract was executed resulted in the department canceling the contract award. At that time, the department decided to hire temporary employees to outfit the vehicles instead of issuing another ITB.

Discussions with department management disclosed that only one staff member had been assigned to evaluate the bids; the department had few to no written procedures for guidance; and the bid evaluation was not independently reviewed until after the contract award was protested by a competitive bidder. As a result of these weaknesses, the department did not achieve a successful contract for outfitting the patrol vehicles.

(2) Successful Bidder a Former Employee of the Department

Department management asserted that the successful bidder had been a temporary employee of the department on two occasions. The individual's last employment period ended September 2, 2005. We did not find evidence, however, that this individual was provided an unfair advantage over other bidders. The ITB was placed on ORPIN with the proper approvals, and the bids were reviewed by staff independent of the unit where the former employee worked.

(3) Work Performed on Vehicles Prior to the Contract Award

We identified 25 payments totaling approximately \$31,000 to the former employee from October 2005 through October 2006. At least 3 of 13 payments we reviewed included costs for some of the vehicles included in the ITB described in (1) above. The department began having the former employee outfit patrol cars after his employment period ended, and this work was done without a contract in place. According to department management, staff had the impression that the work performed by the former employee was considered "trade services" and was not required to be competitively bid.

(4) Vehicles Relocated to Private Property

Inquiries of department management disclosed that at least some of the 45 vehicles purchased in March and April 2006 had been moved from the fleet facility to private property, but the vehicles were returned to the department soon after the contract award was canceled. To ensure all of the vehicles were accounted for, we reviewed the department's fleet records and observed the vehicles at the fleet facility in March 2007. According to the fleet records, approximately half of the vehicles had been assigned to patrol services at various locations around the state. For the vehicles that had not yet been placed in service, we physically observed those vehicles at the fleet facility. The department had accounted for all 45 vehicles.

**We recommend** department management implement the recommendations described previously in this letter. Guidelines should be developed for determining when a formal contract is required and for evaluating bids.

**Efficiencies in Placing Vehicles into Service**

Patrol operations are directly affected by fleet operations. Timing the availability of a complete, outfitted vehicle to troopers' needs is essential for ensuring public safety. According to department fleet management, a standard patrol car requires approximately 40 labor hours to outfit. However, elapsed time can be affected by staffing and other workload.

In December 2006, we received allegations through the Government Waste Hotline that the department had not placed purchased vehicles into service in a timely manner. As stated above, the department purchased 45 patrol vehicles in March and April 2006. When we reviewed the department's fleet records a year after the purchase, only about half of the vehicles had been placed into service.

According to department management, its fleet services division had experienced a backlog of uncompleted patrol vehicles in 2006. The contract described previously in this letter was intended to eliminate the backlog. When the contract award was canceled in October 2006, the decision was made to hire temporary employees to outfit the vehicles. However, new employees could not be hired until January 2007. As a result, the backlog continued for an extended period.

Further discussions with department management disclosed that the department had not established service performance measures for its fleet management, but intended to address this issue when key personnel positions were filled.

**We recommend** department management evaluate its process for placing patrol vehicles into service, and establish meaningful performance measures to be used in monitoring, evaluating and improving its implementation process.

Sincerely,  
OREGON AUDITS DIVISION

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

VDB:brk  
cc: Roberta Watson, Business Services Manager  
Robert Miller, Internal Auditor