

Office of the Secretary of State

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June 30, 2009

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

Dear Ms. Castillo:

In November 2008, we completed an audit of contracting practices at Multnomah Education Service District (MESD). Our report (No. 2008-33) identified opportunities for MESD to improve contracting practices for personal services, leases, multi-year contracts for goods and services, and intergovernmental agreements. Specifically, our recommendations addressed such areas as contractor selection, contract development and contract management.

At the request of MESD and the Department of Education, we recently completed follow-up audit work to assess MESD's progress to date in implementing our recommendations. This work fulfills the requirement set forth in Oregon Revised Statute 326.133(5) that the department monitor district responses to our audit.

In the seven months since we issued our report, MESD has made significant improvements in its contracting practices, especially in the areas of contractor selection and contract development. Based on interviews with MESD officials and staff, a review of policies and procedures, and testing of contracts, we determined that MESD has implemented or partially implemented the majority of our recommendations. The following pages review in detail the implementation status of our audit recommendations. Should you have any questions, please feel free to contact me at (503) 986-2255.

Sincerely,  
OREGON AUDITS DIVISION

A handwritten signature in blue ink that reads "Sandra K. Hilton". The signature is written in a cursive style.

Sandra K. Hilton, CPA  
Audit Manager

SKH:brk

**Recommendation No. 1:** Develop and implement written contracting policies and procedures to ensure contractors are selected using competitive screening and selection processes.

**Status: Implemented**

MESD has developed and implemented several written policies that outline detailed requirements and procedures for competitively screening and selecting contractors. To verify implementation of these policies, we reviewed signed personal services contracts entered into MESD's contract management system between March 3, 2009 and June 1, 2009, and found that they were competitively screened and selected.<sup>1</sup>

**Recommendation No. 2:** Develop and implement written contracting policies and procedures to ensure contracts are signed by all parties prior to receiving and paying for services.

**Status: Partially Implemented**

MESD has developed and partially implemented written policies and procedures requiring contracts be signed prior to receiving and paying for services. We reviewed all signed contracts entered into MESD's contract management system during our testing period and found that most were signed prior to the date work was to commence, according to the contract. However, we found that ten out of 75 intergovernmental agreements and contracts were signed after work was to commence, as stated in the contract.

According to MESD's General Counsel, local government units that MESD contracts with follow their own review and approval timelines. He also stated that MESD concluded that the risk of potential problems posed by a signed agreement arriving during or after receipt of services is very low.

**Recommendation No. 3:** Develop and implement written contracting policies and procedures to ensure contracts, leases and intergovernmental agreements are adequately administered and monitored.

**Status: Partially Implemented**

To address our recommendations, MESD has made its first priority the reorganizing of its contracting processes and improving the contractor competitive screening and selection process. MESD officials told us they are also developing and implementing written policies and procedures for contract administration and monitoring, and intend to focus their efforts on this area in the near future.

Additionally, while interviewing MESD staff, we learned that MESD management shifted some staff responsibilities, which has allowed one accountant time to review payments to contractors. Given the relatively short time that has elapsed since MESD received our recommendations, and

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<sup>1</sup> This time period applies to all testing we conducted.

because MESD has not completely developed and implemented contracting policies, we did not test contracts for evidence of administration and monitoring.

**Recommendation No. 4:** Develop and implement written contracting policies and procedures to ensure contract files are organized and meet applicable documentation and retention requirements.

**Status: Implemented**

MESD has developed and implemented written policies and procedures requiring that specific contract documentation be maintained. We verified that files for contracts entered into MESD's contract management system during our testing period contained the documentation required by MESD's policy. MESD has also developed and implemented a contracts retention policy in accordance with state contracting rules.

**Recommendation No. 5:** Develop and implement written contracting policies and procedures to ensure intergovernmental agreements are used appropriately and a written record of how price was determined is maintained.

**Status: Partially Implemented**

MESD has developed and implemented a written policy entitled, "Relations with Government Agencies" that outlines requirements for service agreements with governmental organizations, including component districts and the Oregon Department of Education. However, the policy also outlines similar requirements for service agreements with non-governmental organizations, including non-public schools and non-profit organizations. This is problematic because contracting rules require that contracts with non-governmental organizations follow competitive selection requirements. Additionally, the policy does not require that a written record of how price was determined be maintained, which is recommended in contracting best practices.

Despite our concerns with the above policy, when we reviewed signed intergovernmental agreements entered into MESD's contract management system during our testing period, we found that they were appropriately entered into with a governmental organization, such as a school district or the Oregon Department of Education. We also found that the basis used to determine price was documented. Additionally, MESD officials told us they intend to revise their policy to clarify that it does not apply to non-governmental organizations.

**Recommendation No. 6:** Contracting policies and procedures clearly assign responsibilities to the Business Services, Legal Services, and Human Resources departments and program areas, and that staff assigned the responsibilities be adequately trained.

**Status: Partially Implemented**

MESD has developed and implemented a written procedure that assigns contracting responsibilities among the Business Services, Legal Services, and Human Resources departments, and program areas. However, our interviews with staff indicate there is still

confusion regarding responsibilities for contract administration and monitoring. Additionally, MESD has not developed written policies and procedures that specifically describe how staff are to monitor certain areas, such as contractor performance and payments.

MESD has also begun conducting contracting training for all staff that includes training on the new contracting policies and procedures, changes to the contracting process, new contract templates and the contract management system.

**Recommendation No. 7:** Further develop the monitoring capabilities of the existing contract management and accounting information technology systems.

**Status: Partially Implemented**

MESD has begun using the document retention function available for the contracts management system, but has not fully utilized the monitoring capabilities of its accounting information system. MESD officials told us they are in the process of deciding how best to utilize the systems to create a more efficient contract monitoring system.

**Recommendation No. 8:** Review all unsupported payments to contractors and seek reimbursement for any payments determined inappropriate.

**Status: Not Implemented**

MESD has not reviewed all unsupported payments to contractors and sought reimbursement for any payments determined inappropriate. However, MESD has hired a Contract and Risk Manager that, according to MESD officials, will review all unsupported payments identified in our original audit and seek reimbursement for any payments determined inappropriate. The Contract and Risk Manager will also be responsible for conducting internal audits of contracts, including a review of payments to contractors for appropriate support.

**Recommendation No. 9:** Seek reimbursement from the contractors we determined overcharged MESD and review payments made to these contractors outside our audit period for potential savings.

**Status: Implemented**

Regarding the first overpayment we identified, after reviewing additional documentation the contractor provided, MESD determined that the contractor was not overpaid. With regard to the second overpayment we identified, MESD officials told us they reviewed all payments under the contract and have received reimbursement from the contractor.