



Oregon

John A. Kitzhaber, M.D., Governor

Department of Transportation

Office of the Director

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January 23, 2014

The Honorable Richard Devlin, Co-Chair
Oregon State Representative
900 Court St. NE, S-211
Salem, OR 97301

The Honorable Peter Buckley, Co-Chair
Oregon State Representative
900 Court St. NE, H-272
Salem, OR 97301

Dear Co-Chairpersons:

Nature of the request

Presentation of the requested report covering all internal audits performed during the 2011-13 biennium including the audit findings and Department response to the findings.

Background

A Budget Note in HB 5544 (2013) required the Department of Transportation to provide a report that lists all internal audits performed during the 2011-13 biennium including the audit findings and Department response to the findings.

The internal audit function is established in state law under ORS 184.639, which requires that the "Director of Transportation shall designate an internal auditor for the Department of Transportation who shall perform internal audits of the department and report findings to the director."

Internal audits are independent reviews that identify ways to improve Department operations. The function has an important role in promoting accountability and providing managers with information they need to carry out their responsibilities.

The attached report is the report the budget note requires.

Action Requested

The department requests acceptance of the report.

Legislation affected

None.

Sincerely,

Matthew L. Garrett
Director

ENCLOSURE

July 1, 2011–June 30, 2013—ODOT Internal Audit Reports

Summary of ODOT Internal Audit Reports July 1, 2011–June 30, 2013

Audit Report Title	Date	Audit Findings	Department response
Fiscal Year 2011 SPOTS Card Review: Program Complies with Policies but Some Improvements are Needed	Sept. 2011	This annual review assessed ODOT's purchasing card program for compliance with state and agency policies. Overall, controls over the SPOTS card program appear adequate but we did identify improvements in several areas: (1) tracking lodging charges; (2) requiring documentation for travel expenses of individuals who are not state employees; and (3) using the declined transaction report to identify individuals who attempted to misuse their SPOTS card.	Financial Services management updated ODOT's SPOTS policy to clarify that SPOTS cards are not to be used for lodging reservations or any expenditures related to employee travel, and to require documentation when travelers are not state employees. Financial Services reviews the declined transactions report quarterly and follows up with cardholders, as with any card misuse or abuse.
Workforce Development Program Contract Oversight	August 2011	We audited deliverables for the Workforce Development Program to follow up on a previous audit of workforce development, as well as in response to a request by the Secretary of State Audits Division. We compared deliverables to the contract documents and found that the required deliverables had been received. We also identified areas for improvement in defining and measuring program success.	The Major Projects Branch and the Office of Civil Rights generally agreed with the report and planned to incorporate performance reviews and measurements into future contracts.
Information Asset Classification: Full Audit Recommended in the Future	May 2012	We surveyed the Information Security Program's progress towards compliance with ODOT's Information Asset Classification Policy. The program has made solid progress moving ODOT towards compliance with the policy, but full compliance remains to be achieved. We recommended deferring further audit work until ODOT achieves substantial compliance.	Information Systems Branch management concurred with the recommendation.

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OWIN Follow-Up Audit: Substantial Progress Made, Further Improvements Needed in Some Areas	July 2012	<p>This was a follow-up to audit report #10-05, <i>Oregon Wireless Interoperability Network: Controls Needed in Partnership and Site Acquisition Processes</i>. The follow-up showed that State Radio Project management had made substantial progress in improving project oversight and strengthening site acquisition policies and procedures.</p> <p>The follow-up also identified some areas to further improve project accountability: 1) verify project milestones; 2) improve procedures for issuing and approving Notices to Proceed and equipment installation; 3) appropriately record in-kind transactions in financial systems; and 4) amend agreements to reflect current site occupancy.</p>	<p>State Radio Project management has taken the following steps to address the follow-up recommendations:</p> <ol style="list-style-type: none"> 1) Revised the Schedule Update Procedure to include verification of project milestones 2) Implemented a Construction Handoff Package to verify documentation and approvals before beginning construction or equipment installation 3) Coordinated with Financial Services on the appropriate documentation for in-kind goods and services 4) Instituted a tracking log to work through agreements that do not reflect current site occupancy
Grants Pass Transit Shelters	Dec. 2012	<p>Due to concerns about increased project costs, we were asked to assess ODOT's role in a local project to build bus shelters in Grants Pass. We found that ODOT followed established oversight procedures. ODOT's role was to perform local agency liaison duties including processing payments for project invoices. While expenditures on the project increased from original estimates, the costs adhered to federal funding requirements and received the necessary approvals by local, state and federal oversight officials. We did not find that ODOT or other parties acted inappropriately.</p>	None requested.

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Construction Quality Assurance Follow-Up: All Recommendations Implemented or in Progress	Jan. 2013	This was a follow-up to audit report #10-03, which found that ODOT had structured the Construction Quality Assurance Program to provide a reasonable system of checks and balances, but also identified some areas for improving construction oversight. In this follow-up we found that all of the recommendations from the 2010 audit had been implemented or were in the process of being implemented, further strengthening the checks and balances of the QA Program.	Management was pleased that the audit acknowledged the leadership of the Technical Services Construction Section in pulling together staff from headquarters and the field to collaboratively work the recommendations. Management is confident that the resulting changes are helping to improve the construction QA program, and will continue to monitor progress and make any necessary adjustments to continuously improve the program.
Compliance with DAS Delegation Agreement	April 2013	DAS Delegation Agreement 639-11 authorizes OPO to procure and administer contracts up to \$5 million. It also requires Audit Services to conduct a compliance review. We found ODOT to be in substantial compliance with the delegation agreement. We did identify some administrative areas for improvement, including updating internal sub-delegations and filing required reports.	OPO management generally agreed with the recommendations and had taken steps to implement them by the time the letter was released.
Bridge Section A&E Contract Administration	April 2013	This review of A&E contract administration in the Bridge Section was conducted as part of a larger ODOT-wide audit. Because of the broad scope and in order to report results timely, we issued management letters as we completed audit work in each section or region. We found that the Bridge Section's practices were strong for statement of work writing, and we identified opportunities to strengthen procedures for payment documentation, contract close-out, policy compliance, and training.	The Bridge Section will begin documenting its invoice reviews, closeout procedures and acceptance of deliverables and arranging training for new contract administrators. Bridge Section management discussed the report with the Technical Services Manager, who indicated she would like to work with other sections in Technical Services to see if they need to strengthen their procedures for similar issues.

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Audit Survey of the Sellwood Bridge Project	May 2013	This survey was in response to a management request that we assess if the Sellwood Bridge project has adequate controls for financial and payment processes, for contract and procurement practices, and if foreseeable risks have been mitigated to an acceptable level. We found that controls for the project appear adequate and no matters of concern came to our attention.	No response requested.
Major Projects Branch A&E Contract Administration	June 2013	This review of A&E contract administration by the Major Projects Branch was conducted as part of a larger ODOT-wide audit. Because of the broad scope and in order to report results timely, we issued management letters as we completed audit work in each section or region. We found practices appeared adequate in statement of work writing and contract closeout, and payment processing, such as labor rate reviews, has improved over time.	The Major Projects Branch appreciated the review of contract administration related to the OTIA III Bridge Program. The branch responded that the review validated its ongoing focus on continuous process improvement. It helped the branch ensure that it uses sound practices and are wise stewards of the public resources in the delivery of its projects and programs.
Region 2 A&E Contract Administration	June 2013	This review of A&E contract administration in Region 2 was part of a larger ODOT-wide audit. Because of the broad scope, and in order to report results timely, we issued management letters as we completed audit work in each section or region. Overall, Region 2's processes for statement of work writing appear strong but payment processing could be improved.	Region 2 appreciated the audit recommendations. As the audit noted, Statement of Work writing is strong and contracts are clear. The region will revisit the process for reviewing invoices and labor rates, as well as training for contract administrators on their roles and responsibilities.
Region 1 A&E Contract Administration	June 2013	This review of A&E contract administration at Region 1 was part of a larger ODOT-wide audit. We found that Region 1's processes for writing statements of work appear strong but payment processing could be improved.	Region 1 concurred with the recommendations for improving payment processing. Steps taken to implement them include refresher training and Procurement Office review of labor rates. The Business Operations Unit will follow up in a year to ensure those steps are adequate.