

Office of the Secretary of State

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June 28, 2021

Kris Strickler, Director
Oregon Department of Transportation
355 Capitol St NE, MS 11
Salem, OR 97301-3871

Dear Mr. Strickler:

In response to a request by the Oregon Department of Transportation (department), we conducted a limited review of the department's field office inventory controls. The objective of this review was to review the department's controls over small equipment and other inventory to identify opportunities to improve or enhance controls. Our review focused primarily on small equipment purchased and controlled by Region 1 maintenance field office staff. To meet this objective, we performed the following limited procedures:

- reviewed the department's delegation of authority over purchasing inventory;
- reviewed segregation of duties for purchase approval and custody of small equipment and other inventory at the state, regional, district, and crew level;
- reviewed statewide policies for agency internal controls over purchasing and inventory and delegation of expenditure authority;
- reviewed department capital asset and inventory policies and procedures;
- interviewed department staff in District 2B, Region 1, Operations and Maintenance, and Financial Services; and
- gained an understanding of processes and controls initiated in response to the thefts uncovered in February 2020.

Results

Based on our review, we identified the following opportunities to strengthen purchasing and inventory controls.

- To ensure adequate segregation of duties, consider separating the purchase and tracking of inventory responsibilities. During our review, we noted that Region 1 implemented a SmartSheet® equipment tracking system. The system uses prenumbered inventory tags to identify and track lower-cost items valued between \$250 to \$2,000. These items are generally excluded from the ODOT statewide equipment inventory tracking. Crew managers can initiate and approve equipment purchases and update and verify the SmartSheet® tracking system. Ideally, these functions should be separated.
- To improve record keeping and better ensure equipment inventory is complete and accurate, reconcile the Region 1 inventory tracking sheet to the accounting records. Currently, this reconciliation is not performed.

- To ensure adequate and consistent reviews, develop written policies and procedures requiring district managers review, and document their review, of invoices and burn rate reports. Starting in February 2020, district maintenance managers were instructed to perform random purchase order and invoice batch reviews for crews in their district, and to review monthly “burn rate reports.” The reports show how much maintenance crews have spent monthly during the biennium. District managers can drill down to see specific expenditures by crew and individual, allowing them to spot unusual purchasing trends or anomalies. Currently, there are no documented procedures or guidance for district managers to use when reviewing invoices or burn rate reports; and there is no requirement to document that the reviews were performed.
- To help identify purchasing trends or unusual activity, consider developing and performing analytical procedures. Currently, the department does not appear to be performing data analysis to monitor expenditure information. In an agency as large and diverse as the department, data analytics can bring attention to high-risk transactions or purchasing patterns that otherwise might be overlooked by a manual review. Once developed, analytics can be applied periodically as an effective and efficient means of focusing on higher risk activity. It also will allow the department to review a greater amount of information, and over time will better correlate data across the department to provide more accurate identification of potential fraud risks, waste, or vulnerabilities.

The purpose of this letter is solely to describe the scope of our review and the results of the procedures performed. Because this was a limited review, we were not required to and did not follow generally accepted government auditing standards.

We appreciate the time, effort, and cooperation of department staff. The professionalism we encountered and openness to suggestions have made this a collaborative process. If you have any questions, please contact Amy Dale, Audit Manager, or Tracey Gates, Principal Auditor, at (503) 986-2255.

Sincerely,

Office of the Secretary of State, Audits Division

State of Oregon

cc: Tracy Wroblewski, CFO
Marlene Hartinger, Chief Auditor