



JACKSON COUNTY

Oregon

Internal Audit Report

**Least Cost ORS Compliance Audit
FY 2009-10**

November 2, 2010

**Presented To The
Jackson County Board of Commissioners
By The
Internal Audit Program**

**Debbie Taylor, County Auditor
Kathryn Finwall, Senior Auditor**



**JACKSON
COUNTY**
Oregon

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To: Board of Commissioners
From: Debbie Taylor, County Auditor
Subject: Least Cost ORS Compliance Audit
Date: November 2, 2010

The attached audit report provides information concerning the Least Cost ORS Compliance Audit. The audit was included in the fiscal year 2010-11 Internal Audit Plan, and the work was performed in conjunction with the county's annual external financial audit.

We found that the County complied with ORS 279C.305, Least-Cost Policy for Public Improvements, and ORS 368.151, Accounting for County Road Work (where applicable). In addition, internal controls were generally adequate to ensure compliance with those laws.

The Internal Audit Program appreciates the cooperation and assistance it received from Roads & Parks, Facility Maintenance, and Community Justice staff throughout the audit process.

cc: Audit Committee
Kenneth Kuhns CPA
Harvey Bragg, Sr Deputy County Administrator
John Vial, Roads & Parks Director
Shane Hagey, Community Justice Director
Rick Isner, Facilities Maintenance Superintendent

JACKSON COUNTY
AUDIT OF ORS LEAST COST POLICY FOR PUBLIC IMPROVEMENTS
Fiscal Year 2009-10

Audit Authority

We conducted this audit in accordance with Codified Ordinance 218 pertaining to the County Auditor. The audit was included in the fiscal year 2010-11 Internal Audit Plan as part of the work we perform annually in support of the county's external audit.

Audit Background

The State of Oregon requires that public agencies will make every effort to construct public improvements at the least cost to the public agency. Chapter 279C of the Oregon Revised Statutes (ORS) covers Public Contracting - Public Improvements and Related Contracts. ORS 279C.305 requires each public agency to file with the Commissioner of the Bureau of Labor and Industries a list of every public improvement that the agency plans to fund in the budget period, including a statement as to whether the improvement will be performed by a private contractor. If the agency plans to perform the improvement using the agency's own equipment and personnel on a project estimated to cost more than \$125,000, then the agency will also show that its decision is the least costly option.

If the estimated cost exceeds \$125,000, the agency will prepare adequate plans and specifications and the estimated unit cost of each classification of work. The agency will keep and preserve a full, true and accurate account of the costs of performing the work, including all engineering and administrative expenses and the cost, including investment costs, of any equipment used. In addition, ORS 368.051 requires the county road official to maintain a complete and accurate cost account for road work performed by the county as required under ORS 279C.305.

Audit Objectives

The objectives of our audit were to determine:

- If the county complied with ORS 279C.305 - Least-Cost Policy for Public Improvements; Costs Estimates in Budget Process; Use of Agency Forces; Record of Costs; and if applicable, ORS 368.151 - Accounting for County Road Work; and
- If internal controls were adequate to reasonably ensure compliance with ORS 279C.305 and ORS 368.151 if applicable.

Scope & Methodology

Our audit tested compliance with ORS 279C.305 and ORS 368.151 (where applicable) for fiscal year 2009-10 and for fiscal year 2010-11 when deemed appropriate. All public improvement projects performed with force labor that exceeded \$125,000 in expenditures were reviewed.

Audit Procedures included:

1. Reviewing current ORS 279C.305 Least Cost Policy for Public Improvements and ORS 368.151 Accounting for County Road Work, where applicable.
2. Reviewing a copy of the Planned Public Improvement Summaries submitted by the county to the Prevailing Wage Rate Unit of the Wage and Hour Division of the Bureau of Labor and Industries (BOLI).
3. Reviewing county financial system project reports to identify departments that may have used force labor to perform public improvements in excess of \$125,000.
4. Discussing cost accounting procedures with departmental staff.
5. Reviewing overhead rates for departments that might use county personnel and equipment on projects applicable to ORS 279C.305 and ORS 368.051, where applicable.
6. Other activities as considered appropriate.

Audit Criteria

Criteria represent the laws, regulations, contracts, grant agreements, standards, measures, expected performance, defined business practices and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation. Criteria for our audit consisted of ORS 279C.305 Least-Cost Policy for Public Improvements, ORS 368.151 Accounting for County Road Work, and professional guidance relating to effective internal control systems.

Internal Controls

We gained an understanding of internal controls¹ by discussing project costs and accounting procedures with appropriate personnel in the departments who might be affected by ORS 297C.305 and ORS 368.051.

Compliance with Government Auditing Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Privileged and Confidential Information

No information was withheld from this report for privileged or confidentiality reasons.

¹ Internal control is defined as a process, affected by the governing body, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

Audit Results

General Finding:

The County complied with ORS 279C.305, and ORS 368.151 (where applicable). In addition, internal controls were generally adequate to ensure compliance with those laws.

Detailed Findings:

Report Submission

ORS 279C.305 requires that not less than 30 days prior to adoption of its budget for the subsequent budget period, each public agency shall prepare and file with the Commissioner of BOLI a list of every public improvement known to the agency that the agency plans to fund in the budget period, identifying each improvement by name and estimating the total on-site construction costs. The list shall also contain a statement as to whether the agency intends to perform the construction by a private contractor or intends to perform construction work using the agency's own equipment and personnel on a project estimated to cost more than \$125,000.

The Facilities Maintenance Program of Jackson County coordinated with other Jackson County departments and submitted the FY 2010-11 BOLI listing on a timely basis.

Projects – Full & Accurate Reporting

Three departments were identified that might use county personnel and equipment on projects with estimated costs exceeding \$125,000. These departments were Roads & Parks, the Facility Maintenance Program of County Administration, and the Community Justice Work Program. An inquiry was made to these departments/programs concerning this audit with the following responses.

The Roads & Parks Deputy Director reported that all public improvements estimated to cost more than \$125,000 were budgeted for completion by public contract, except for one. The replacement of Wagner Creek Bridge was estimated at a project cost of \$260,200 in the ensuing year FY 2010-11 listing. Preliminary engineering costs were incurred in FY 2009-10, however, these costs are not normally included in the Capital Improvement Project Cost Comparison Estimate, which reflects estimated costs for construction only. The form submitted to BOLI estimated the construction period as May, 2010 – September, 2010; however, the project construction was not in-progress as of June 30, 2010.

The department's overhead calculations were reviewed and found to be appropriate and consistent with the prior year's methodology. The Deputy Director reported that there have been no significant changes to the way Roads & Parks records their costs in the IRIS Cost Accounting System which reflects a total accounting of the costs of performing the work, as required by both ORS 279C.305 and ORS 368.051.

Additionally, the Meyer Creek Bridge project was completed during FY 2009-10 and a final accounting shows total costs of \$496,300. This project was first proposed as Agency Force versus Contract based on estimates in FY 2006-2007; however, the work was not started until FY 2008-09 with completion in 2009-10. Actual costs include professional services/engineering of the project as well as the actual construction. Deducting the engineering services costs, the total cost of the contract piece is \$376,641, which is a 5.4% increase over the original estimate for Agency work of \$357,200, but still less than the estimate for contract (by 4.3%).

Work Order Cost Detail reports for Facility Maintenance showed that no public improvement projects were completed with Facility Maintenance staff or equipment during FY 2008-10 that exceeded \$125,000. Facility Maintenance uses the County's E1 financial system's work order cost detail report to track costs for specific projects; and the Facilities Maintenance Administrative Assistant stated during the current review that there have been no significant changes in the way they record project costs. The FY 2009-10 square footage rates for Facility Maintenance were reviewed and found to be reasonable and consistent with the prior year's rates.

The Community Justice Work Center Office Assistant IV reported that the work crews performed no public improvement projects for Jackson County during FY 2009-10 that exceeded \$125,000. Overhead rates used by Community Justice were not reviewed since no projects were identified in excess the \$125,000.

Recommendations

None

Management Response

The Sr. Deputy County Administrator, Director of Community Justice, and Deputy Director of Roads and Parks have read the report and agree with the content pertaining to their respective areas.