
Secretary of State

State of Oregon

DEPARTMENT OF TRANSPORTATION

Special Review – Change of Director

July 1, 1995 through December 31, 1995



Audits Division

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Auditing for a Better Oregon

The Honorable John Kitzhaber
Governor of Oregon
State Capitol Building
Salem, Oregon 97310

Grace Crunican, Director
Department of Transportation
135 Transportation Building
Salem, Oregon 97310

Oregon Revised Statutes 297.210(2) requires the Secretary of State to audit or review a state agency when the executive head retires from his or her position. This report contains the results of our review of the Department of Transportation for the period July 1, 1995 to December 31, 1995. The objective of this review was to test accountability of transactions and accounts directly related to control by the former director. Additional objectives of the review were to determine whether controls were in place to safeguard assets and whether selected transactions complied with pertinent laws, rules, and regulations.

We conducted our audit in accordance with generally accepted government auditing standards. In this regard, we inquired of agency personnel, reviewed policies and procedures, tested relevant reports, and evaluated management controls as required to accomplish the objectives of our review.

Our review concluded that the Department of Transportation complied with all applicable laws and regulations. This report, however, includes a recommendation that the department improve controls for obtaining sufficient documentation before reimbursing employees for travel expenses.

OREGON AUDITS DIVISION

John N. Lattimer
Director

Fieldwork Completion Date:
November 10, 1997

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SUMMARY

PURPOSE

This review was conducted for the purpose of complying with *Oregon Revised Statutes 297.210(2)* requiring a review of a state agency when the executive head retires from his or her position.

BACKGROUND

On December 31, 1995, the director of the Department of Transportation left his position. As a result, we conducted a review of the agency as required by ORS 297.210(2). This review included testing payroll, expense, and asset transactions directly subject to the control of the director during the period July 1, 1995, through December 31, 1995. In addition, we reviewed certain other transactions occurring during the former director's tenure as an employee that were brought to our attention.

RESULTS IN BRIEF

We found that the department could strengthen its controls related to reimbursing employees for out-of-state travel. We found several instances in which employees were reimbursed and the documentation to support the claim was not sufficient to determine whether the claim should be paid.

RECOMMENDATION

We recommend that the Department of Transportation take the following steps:

- Review and follow the Department of Administrative Services requirements for out-of-state travel;
- Require that employees processing claims not process claims unless sufficient information is submitted to ensure that the reimbursement should be made; and
- Provide assurance that all employees are aware of the documentation requirements when submitting claims for reimbursement of out-of-state travel.

AGENCY RESPONSE

The Department of Transportation agrees with the findings and recommendations.

INTRODUCTION

ORGANIZATION AND FUNCTIONS

The Department of Transportation (department) was established in 1969 under the provisions of *Oregon Revised Statutes* (ORS) 184.615, and reorganized in 1973 and 1993 by legislative action. A five-member Transportation Commission, appointed by the governor, is assigned oversight responsibility for the department. The commission, subject to approval by the Oregon Senate, appoints a Director of Transportation to oversee the operations of the department.

The department's mission is to develop and maintain an integrated, balanced, statewide transportation system that moves people, goods, and services safely and efficiently throughout the state. It is actively involved in developing Oregon's system of highways, roads, and bridges; its aviation system; public transportation services; rail passenger and freight systems; bicycle and pedestrian paths; ports and marine transportation; and pipelines. Equally important are transportation safety programs, driver and vehicle licensing, and motor carrier enforcement.

The department currently carries out its mission through six department branches:

Communications — The Communications Branch coordinates the department's overall outreach efforts, including public involvement, governmental relations, media relations, community and employee communications, and support for the director.

Driver and Motor Vehicle Services — The Driver and Motor Vehicle Services Branch contributes to public safety by licensing only qualified persons and vehicles to drive on streets and highways.

Finance and Administration — The Finance and Administration Branch oversees the following functions: Financial Services, Human Resources and Organization Development, Information Systems, and Support Services.

Motor Carrier Transportation — The Motor Carrier Transportation Branch is responsible for issuing operating authority, collecting highway use taxes, registering heavy vehicles, and enforcing motor carrier safety and size and weight laws. This branch did not exist at the department prior to January 1996. A law passed by the 1995 Legislative Assembly mandated the transfer of the Public Utility Commission's Transportation Program to the Department of Transportation.

Transportation Development — The Transportation Development Branch is the department's strategic planning and policy group. The branch guides overall statewide transportation development through the long-range Oregon Transportation Plan, individual modal plans, corridor plans, and transportation policy analysis and research. It also includes efforts to develop high-speed rail, intricate bus services, freight rail, aviation, public transit, and to actively promote transportation safety.

Transportation Operations — The Transportation Operations Branch designs, maintains, operates, and oversees construction of Oregon's 7,450 miles of state highways. These activities include identifying highway needs; maintaining state highway routes; acquiring rights of way; designing highways, bridges, and related structures; awarding highway construction and modernization contracts; supervising contractors; obtaining federal highway funds; helping counties and cities improve roads and streets; testing materials; evaluating environmental impacts of proposed projects; and conducting traffic studies and other research projects.

FINANCIAL ACTIVITIES

During the 1995-97 biennium, the department had an operating budget of approximately \$1.75 billion with 4,680 full-time equivalent employees. The majority of its revenue is received from motor fuel tax receipts, weight-mile tax collections, and motor vehicle licensing and registration fees. Other revenue sources include general fund monies, lottery funds, and federal funds.

**SCOPE AND
METHODOLOGY**

We conducted a limited review of the Department of Transportation for the purpose of complying with ORS 297.210(2). This statute requires the Secretary of State to review a state agency when the executive head leaves his or her position.

The objective of this review was to test accountability of transactions and accounts directly related to control by the former director. Additional objectives of the review were to determine whether controls were in place to safeguard assets and whether selected transactions complied with pertinent laws, rules, and regulations.

Travel Claim Procedures: We selected all expense claims paid to the director from July 1, 1995, through December 31, 1995, to determine if the claims complied with appropriate regulations. We also selected a sample of expense claims for other employees who reported directly to the former director. We verified that the claims were approved, receipts were attached to support the expense claims, amounts were in accordance with the travel rules of the Department of Administrative Services, and the travel was related to the employees' duties.

Payroll Procedures: We reviewed the director's timesheets for the period July 1, 1995, through December 31, 1995, to verify they were prepared and approved. In addition, we reviewed the related payroll registers to determine whether amounts paid agreed with the timesheets submitted. We also selected another employee reporting to the former director and performed a review of her timesheets and payroll registers for the same period.

Assets and Computer Access Procedures: We determined if credit cards, key cards, keys, computers, and other items were turned in when the former director left. We also verified that the director's access to computer systems was terminated and signature authorization was removed from all financial approval processes. We verified that the former director no longer had access as a pilot to the aircraft owned by the department.

Other Procedures: We performed other procedures to determine whether the former director used the department's aircraft for activities other than the department's business during the period July 1988 through December 1995. We reviewed business records for the period July 1990 through December 1995 to determine whether the former director had any business relationships that might be in conflict with his duties as an employee of the department.

We conducted our audit in accordance with generally accepted government auditing standards. Our review was limited to the areas specified in this section of the report.

AUDIT RESULTS

REPORT ON INTERNAL CONTROLS

The management of the Department of Transportation is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal controls. The objectives of an internal control system are to provide management with reasonable assurance regarding the reliability of financial reporting, the effectiveness and efficiency of operations, and compliance with laws and regulations. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projections of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit, we obtained an understanding of the internal controls related to the specific systems we reviewed. We obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures and not to provide an opinion on the internal controls. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal controls and its operations that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls that, in our judgment, could adversely affect the department's ability to provide adequate accountability and safeguarding of assets. The matters we consider to be reportable conditions are included in the Findings and Recommendations section of this report; however, our consideration of the internal controls would not

necessarily disclose all matters in the internal control structure that might be reportable conditions.

**REPORT ON COMPLIANCE
WITH LAWS AND
REGULATIONS**

Compliance with laws and regulations applicable to the Department of Transportation is the responsibility of management. As part of our review, we performed tests of the department's compliance with certain provisions of laws and regulations relating to selected transactions. The objective of our review, however, was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no material instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

FINDINGS AND RECOMMENDATIONS

SUPPORTING DOCUMENTATION FOR REIMBURSEMENT OF OUT-OF-STATE TRAVEL CLAIMS COULD BE IMPROVED

Our review of the Department of Transportation (department) disclosed the following control weakness when processing claims for reimbursement to employees for out-of-state travel:

Reimbursements for out-of-state travel expenditures are being made to employees:

- without sufficient documentation to support the claims; and
- for amounts that may not be appropriate.

The Oregon Accounting Manual provides guidance to consider when processing travel claims. These include:

- Each agency is to have designed and controlled filing systems containing specified information for each out-of-state trip farther than 150 miles from the Oregon border. This information must be maintained and, if required, made available for audit and management inquiries. It further requires that information should include the names of personnel traveling, date of travel, out-of-state destination, purpose of the trip, and required authorization.
- Systems should be designed so that only those expenditures meeting state regulations are reimbursed.

Weaknesses in internal controls over cash payments increase the risk that the department is paying claims that are not legitimate claims against the state.

We recommend that the Department of Transportation improve its controls over cash payments as follows:

- Require that employees review travel policies and procedures, especially those employees who travel out of state to conferences and meetings.
- Require that employees processing claims for reimbursement not process claims that do not have proper documentation.
- Require all employees to submit adequate information to support out-of-state travel claims. For conferences or meetings, the information should include whether meals and lodging are provided in the fees, whether the employee is staying at the designated official hotel, and the purpose for attending the meeting and how it relates to the duties of the employee.
- Require approval for travel claims of all employees before those claims are paid. We did not find that the director's travel claims were approved.

REPORT DISTRIBUTION

This report is a public record and is intended for the information of the Department of Transportation and its management, the Department of Administrative Services' management, the governor of the state of Oregon, the Oregon Legislative Assembly, and all other interested parties.

COMMENDATION

The courtesies and cooperation extended by the officials and employees of the Department of Transportation during the course of our review were very commendable and sincerely appreciated.

AUDIT TEAM

Gary Colbert, Audit Administrator, CFE, CGFM
Margaret Kane, CFE, CPA

AGENCY'S RESPONSE TO THE AUDIT REPORT

December 31, 1997

DEPARTMENT
TRANSPORTATION

Cathy Pollino, CGFM
Deputy Director
Secretary of State, Audit Division
255 Capitol Steet NE, Suite 500
Salem OR 97310

FILE CODE:

Dear Ms. Pollino:

We are pleased to note that the recently completed Special Review for Change of Director disclosed no material instances of non-compliance that would have required reporting under accepted Government Auditing Standards.

However, we are in agreement that the department can improve its controls over reimbursements to employees for out-of-state travel. In support of this goal, the department will:

- Provide a reminder to all employees to review travel policies with particular emphasis on the requirements for approval and documentation of out-of-state travel.
- Reiterate that employees processing claims for reimbursement will not process any claim that does not have all required documentation.

In addition, we are in the process of re-evaluating the departments existing policy governing approval of executive level travel claims.

Should you have any questions regarding our response, please contact Ben Wallace at 986-3905.

Sincerely,

Grace Crunican, Director
Department of Transportation



FACTS ABOUT THE SECRETARY OF STATE AUDITS DIVISION

The mission of the Audits Division is to “Protect the Public Interest and Improve Oregon Government.” The Oregon Constitution provides that the Secretary of State shall be, by virtue of his office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

DIRECTORY OF KEY OFFICIALS

Director

Deputy Director

Deputy Director

John N. Lattimer

Catherine E. Pollino, CGFM

Sharron E. Walker, CPA, CFE



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