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Secretary of State

State of Oregon

**OREGON DEPARTMENT OF TRANSPORTATION**

**Sources and Uses of Highway Funds**



Audits Division

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**Sources and Uses of Highway Funds**



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*Auditing for a Better Oregon*

Senator Gene Timms and  
Representative Jim Welsh, Co-Chairs  
Legislative Audit Committee

Dear Committee Members:

At the September 1997 and November 1997 meetings of the Legislative Audit Committee, the Oregon Audits Division presented the results of its audit survey at the Oregon Department of Transportation (ODOT). The survey summarized the views of ODOT stakeholders and identified projects in 12 areas to address the main concerns. Based on input from committee members, the Audits Division began work on five of the proposed projects.

This informational report, one of the five projects, provides high-level information on the sources and uses of funds for state highway related purposes. In summary, the report highlights three conditions. First, since 1993 the overall physical condition of state highway system pavements has declined somewhat, despite an 894-mile increase in the number of miles put into "very good" condition. Second, although State Highway Fund collections increased over the last three biennia, the portion available for state and local highway programs declined. Much of the decline was due to increased collection costs, Driver and Motor Vehicle Services (DMV) and other ODOT program expenses, and statutorily mandated revenue transfers to other programs. Third, over the last three biennia, ODOT expenditures of state and federal highway money increased by approximately \$269 million (29 percent). Highway construction and maintenance together accounted for most of this increase (\$184 million), followed by expenditures for support services and overhead (\$73 million).

We are continuing to work with the Department of Justice in answering certain questions about State Transportation Fund expenditures that were raised during our audit survey. We will present conclusions on those matters in a separate report.

We received the full cooperation of ODOT management and staff in compiling this report.

OREGON AUDITS DIVISION

John N. Lattimer  
Director



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## **INTRODUCTION**

### **WHAT ARE THE OBJECTIVES OF THIS REPORT?**

In response to questions raised by legislators, public employees, transportation stakeholders, and others, this report presents selected high-level background information on funds used by the Oregon Department of Transportation (ODOT) to plan, construct, and maintain state highways and bridges. The objectives of our study were to:

- Verify and report the sources and uses of funds received by ODOT,
- Report trends in State Transportation Fund collections and expenditures, and
- Report trends in state highway pavement conditions.

### **WHAT IS THE ROLE OF THE OREGON TRANSPORTATION COMMISSION AS IT PERTAINS TO HIGHWAYS?**

The Oregon Transportation Commission, which consists of five members appointed by the governor and confirmed by the state senate, has general supervision and control over matters pertaining to the operation and administration of state highways. The commission's primary duty, as assigned by statute, is the development and maintenance of a state transportation policy and a comprehensive, long-range plan for a multimodal transportation system for the state which encompasses economic efficiency, orderly economic development, safety, and environmental quality. The plan, referred to as the Oregon Transportation Plan, includes in addition to highways, roads, and bridges.

## **WHAT IS ODOT'S ROLE AS IT PERTAINS TO HIGHWAYS?**

ODOT is responsible for carrying out the policies adopted by the Oregon Transportation Commission and all duties and responsibilities vested in it by law. Statutes designate ODOT as the recipient of all federal funds paid to, or to be paid to, the state to enable the state to provide the programs and services assigned to ODOT, including federal highway funds. ORS 366.155 (1) specifies several duties of ODOT regarding highways. The specified duties include, but are not limited to, the following:

- Preparing surveys, plans, specifications, and estimates for the construction, reconstruction, improvement, maintenance, and repair of bridges, streets, roads, and highways;
- Keeping an accurate accounting of moneys expended for highway activities;
- Maintaining information such as the mileage, condition, and character of state highways and bridges; and
- Assisting counties on matters related to road location, construction, maintenance, bridges, and culverts.

## **HOW MANY MILES OF PUBLIC HIGHWAYS ARE IN OREGON?**

According to data provided by ODOT, approximately 85,000 miles of roadways that are open to the public exist within the state boundaries. This amount includes roadways under various jurisdictions, such as federal, state, county, or city.

Generally, ODOT's responsibility is limited to maintaining the roads designated as part of the state highway system, which includes the interstate highways. However, ODOT may enter into cooperative agreements with local governments concerning the maintenance of state or non-state highways.

**HAS THE NUMBER OF  
MILES OF STATE  
HIGHWAYS CHANGED  
SIGNIFICANTLY?**

No. Using either centerline miles or lane miles as the unit of measure, the number of miles of state highways has changed by less than 1.5 percent since 1984. According to data provided by the Transportation Inventory and Mapping Unit of ODOT, as of December 31, 1996, the most recent data available, the state had jurisdiction over 8,177 miles, or 19,170 lane miles of roadways. Lane miles are the measure of each lane of highway. A one-mile segment of highway with two lanes in each direction would be four lane miles.



## CONDITION OF STATE HIGHWAYS

### WHAT IS THE CONDITION OF STATE HIGHWAYS?

ODOT maintains a survey of pavement conditions on all state highways. The rating system, based on visual and/or physical examination, reflects the apparent structural integrity of the roadway, not necessarily ride quality or smoothness. In addition, the system does not rate traffic conditions or congestion. The 1997 pavement condition rating survey conducted by ODOT found the following pavement conditions for state highways:

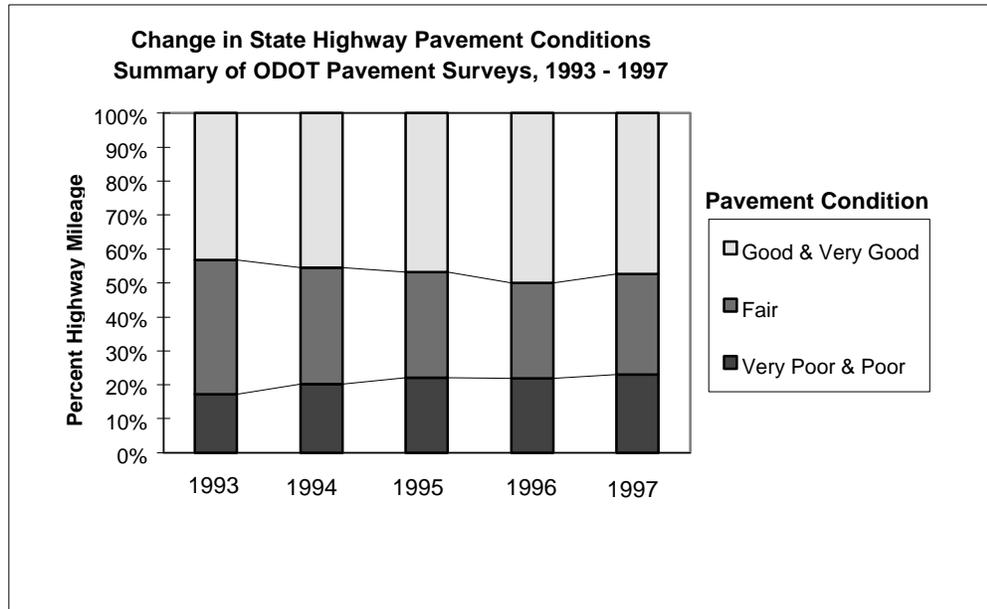
- Very Good 15.29 percent
- Good 32.12 percent
- Fair 29.59 percent
- Poor 22.98 percent
- Very Poor 0.02 percent

### HAS THE CONDITION OF STATE HIGHWAYS BEEN IMPROVING OR DETERIORATING IN RECENT YEARS?

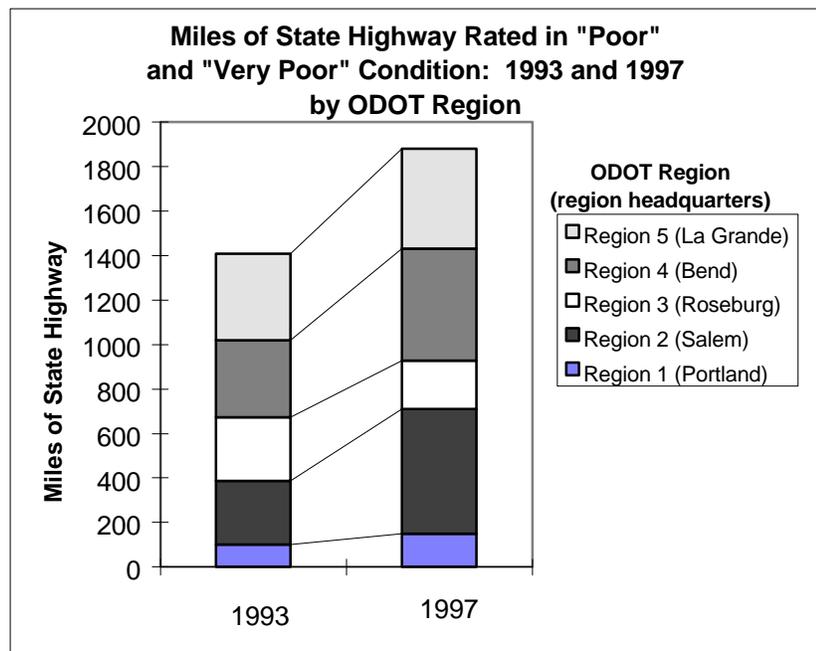
ODOT road surveys show that although the condition of state highways improved each year between 1984 and 1993, since 1993 overall conditions have declined somewhat.<sup>1</sup> In 1984, more than 50 percent of the state highways were rated as poor or very poor compared to 23 percent in 1997. However, between 1993 and 1997, state highway pavements found to be in poor or very poor condition increased by 473 miles and pavements found to be in fair, good, or very good condition declined by 456 miles. Paradoxically, during this same period, the number of miles in very good condition increased by 894 miles. The following chart shows changes in the rated condition of state highways from 1993 to 1997.

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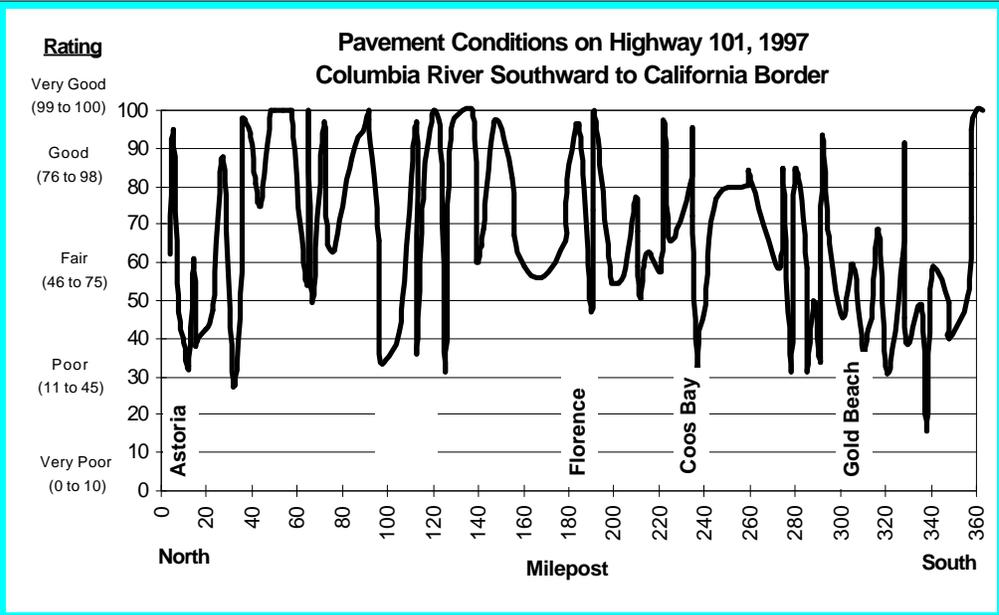
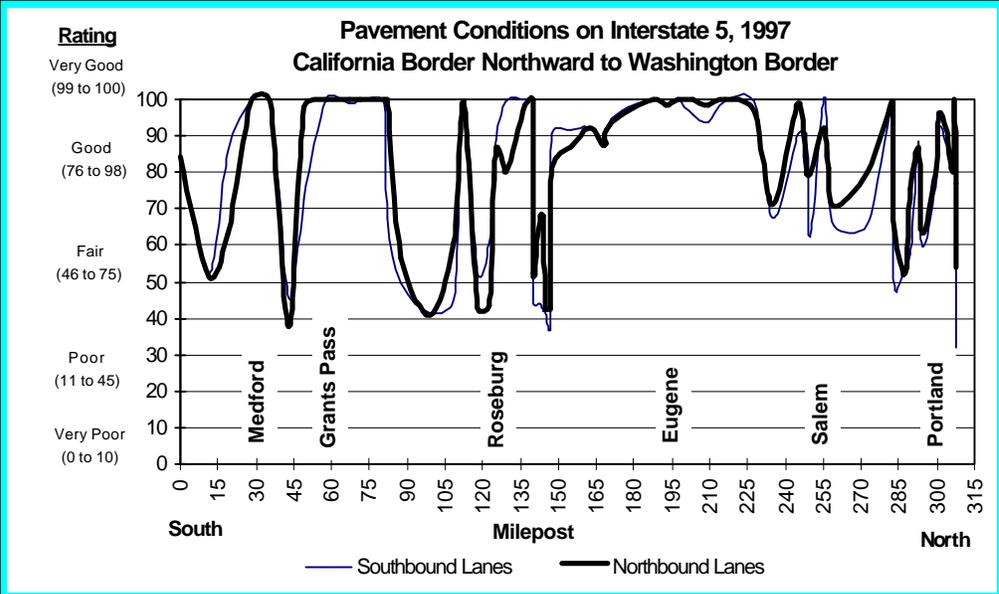
<sup>1</sup> In 1993 ODOT modified the pavement condition rating system used on some highways to include more objective measures. ODOT also began conducting the survey every year, rather than every other year.

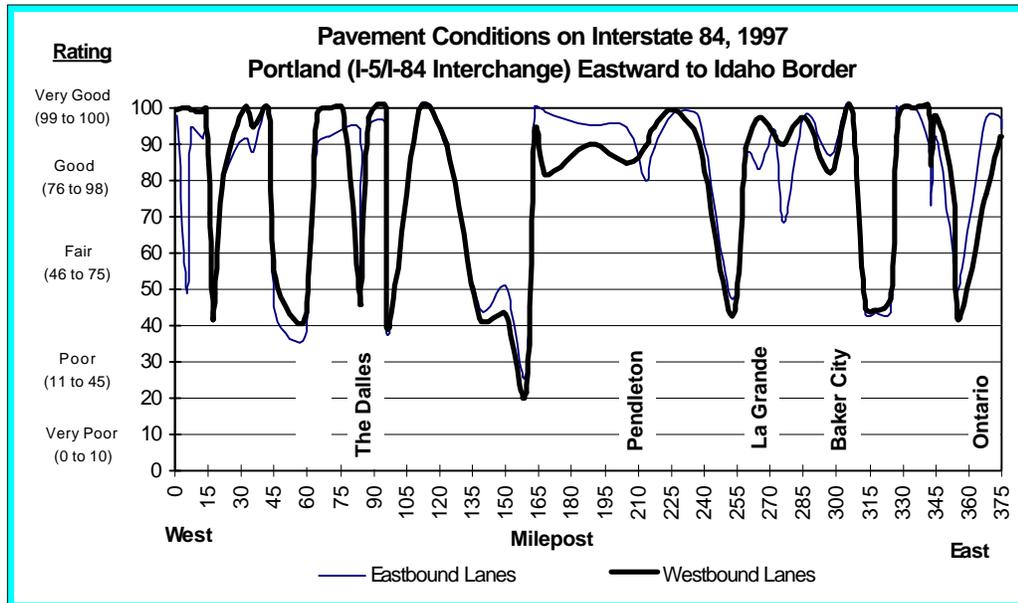


Most of the increase in highway mileage rated as poor and very poor occurred in ODOT region 2 (western Oregon) and region 4 (central Oregon). The following chart compares, for each ODOT region, the number of miles of state highways rated poor or very poor in 1993 and 1997.



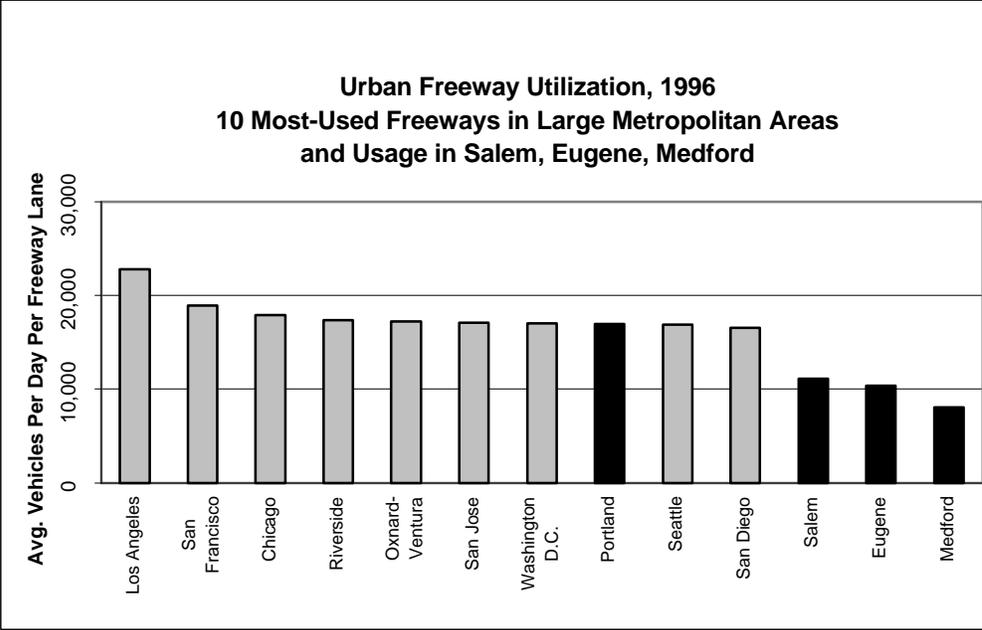
The following charts illustrate variations in 1997 pavement condition ratings for Interstate 5, Highway 101, and Interstate 84.





**HOW DOES TRAFFIC ON OREGON'S URBAN FREEWAYS COMPARE TO OTHER AREAS?**

Freeways in the Portland area are among the most heavily used in the nation. The following chart, developed from federal Department of Transportation data, shows the 10 most used freeway systems among large metropolitan areas, as measured by the average number of vehicles per day per freeway lane. Of the 10 areas, Portland ranked eighth. The chart also includes freeway usage for the Salem-Keizer, Eugene-Springfield, and Medford metropolitan areas.





## **SOURCES OF FUNDING FOR STATE HIGHWAYS**

### **WHAT ARE THE PRIMARY SOURCES OF REVENUE FOR PLANNING, CONSTRUCTING, AND MAINTAINING STATE HIGHWAYS?**

The primary sources of revenue used to fund planning, construction, and maintenance of state highways are federal gas taxes, state motor fuel taxes, state weight-miles taxes, and state vehicle registration fees. Certain commercial vehicles are subject to the weight-mile tax; however, those subject to the weight-mile tax are not responsible for paying motor fuel taxes. Neither state income taxes nor lottery proceeds are a significant source of highway funds. The state receives federal gas tax dollars for highway purposes through programs administered by the Federal Highway Administration. Both federal and state revenues make up the State Highway Fund, a trust fund created by state statute, separate and distinct from the General Fund.

### **DOES THE REVENUE SOURCE MAKE A DIFFERENCE IN HOW THE MONEY IS USED?**

Yes. Each source has its own restrictions on eligible uses. For example, federal funds cannot be used for highway operational purposes such as snow plowing and median mowing. Federal funds may be used, however, for mass transit (e.g. light rail). Section 3a. of Article IX of the Oregon Constitution restricts the uses of revenue from taxes on motor vehicle fuel and taxes or excises levied on the ownership, operation, or use of motor vehicles. These revenues, with specified exceptions, are dedicated to the construction, reconstruction, improvement, repair, maintenance, operation, and use of public highways, roads, streets, and roadside rest areas in the state.

**HOW DOES OREGON OBTAIN FUNDS FROM THE FEDERAL GOVERNMENT FOR HIGHWAY PURPOSES?**

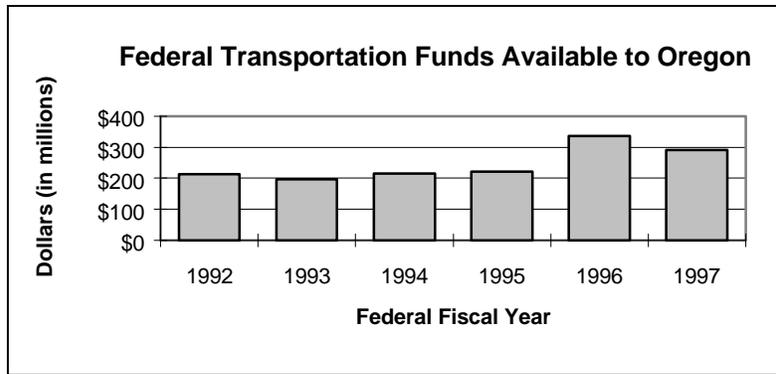
Federal funds are apportioned to the states through authorizing legislation enacted by congress. Generally, to obtain federal highway funds, ODOT must first obtain federal approval of the Statewide Transportation Improvement Program.<sup>2</sup> Then, for each proposed project included in the STIP and for which ODOT requests federal participation in the cost of the project, ODOT must submit plans, specifications, and cost estimates for proposed projects to the FHWA for specific project approval. FHWA approval of a project constitutes its commitment to pay the specified federal share of the project's eligible costs. After ODOT receives FHWA approval for a specific project, ODOT submits project billings to FHWA and receives reimbursement for eligible expenditures.

**HOW MUCH FEDERAL FUNDING HAS THE STATE HAD AVAILABLE FOR HIGHWAY PURPOSES?**

During the six-year authorization period of the Intermodal Surface Transportation Efficiency Act (federal fiscal years 1992 through 1997), federal funding for highway purposes made available to the state ranged from \$196 million to \$335 million.<sup>3</sup> FHWA staff indicated that ODOT uses all federal highway funds that are made available. The following chart illustrates the amount of federal funds available by federal fiscal year.

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<sup>2</sup> With passage of the National Highway System Designation Act of 1995, Congress authorized a pilot program for the creation of state infrastructure banks. Depending on the funding structure, these banks could provide financial assistance for highway or public transit purposes. Oregon participated in the pilot program and, as of June 30, 1997, had received \$8,973,000 in federal funds (moneys previously available for other highway programs) matched by \$1,027,000 from the State Highway Fund. In the state infrastructure bank program, ODOT receives federal funds up front instead of as reimbursement for specific project costs. The Fiscal Year 1997 Department of Transportation Appropriations Act expanded the pilot program.



Federal funds available for fiscal years 1995-97 included approximately \$122 million in emergency relief funds.

**IS THE USE OF FEDERAL FUNDING LIMITED TO ROADS AND BRIDGES ON THE STATE HIGHWAY SYSTEM?**

No. State law allows ODOT to enter into agreements with local governments whereby funds are provided for local transportation systems. For example, agreements between ODOT and the Association of Oregon Counties and the League of Oregon Cities provide mechanisms through which federal funds may be used for highways and bridges not on the state highway system. Federal law allows states to use a portion of federal highway funds for transit projects. In federal fiscal year 1997, of \$290.5 million of federal funds available statewide for highway purposes, approximately \$4 million (1.3 percent) was spent for transit.

**ARE ALL COLLECTIONS FROM STATE SOURCES DEPOSITED IN THE STATE HIGHWAY FUND?**

No. Before funds accrue to the State Highway Fund, deductions are taken to pay for Driver and Motor Vehicle Services (DMV) and Motor Carrier Transportation Branch (MCTB) operating expenses, collection costs, and to comply with statutorily mandated transfers to other programs and funds (e.g. travel trailer registration fees are dedicated to park and recreation uses). The amount remaining is available for state and local highway, road, and street programs.

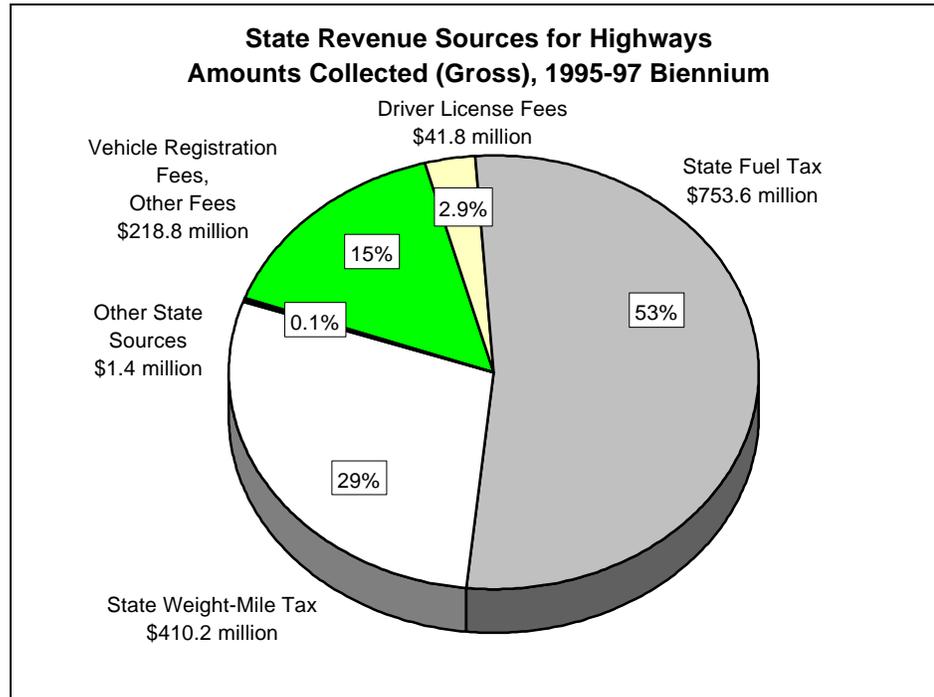
According to data provided by ODOT, almost \$571 million from state sources accrued to the State Highway Fund during state fiscal year 1996-97 after deductions from gross collections.

**DOES ODOT RETAIN CONTROL  
OF ALL MONEY THAT  
ACCRUES TO THE STATE  
HIGHWAY FUND?**

No. The Legislative Assembly directs that counties and cities receive a portion of the moneys that accrue from state sources to the State Highway Fund. Current statutes require that ODOT distribute to counties 24.38 percent and to cities 15.57 percent of the moneys that accrue to the State Highway Fund from state motor fuel taxes, vehicle registration fees, road use assessment fees, and weight-mile taxes. For state fiscal year 1996-97, ODOT distributed approximately \$231 million to counties and cities within Oregon.

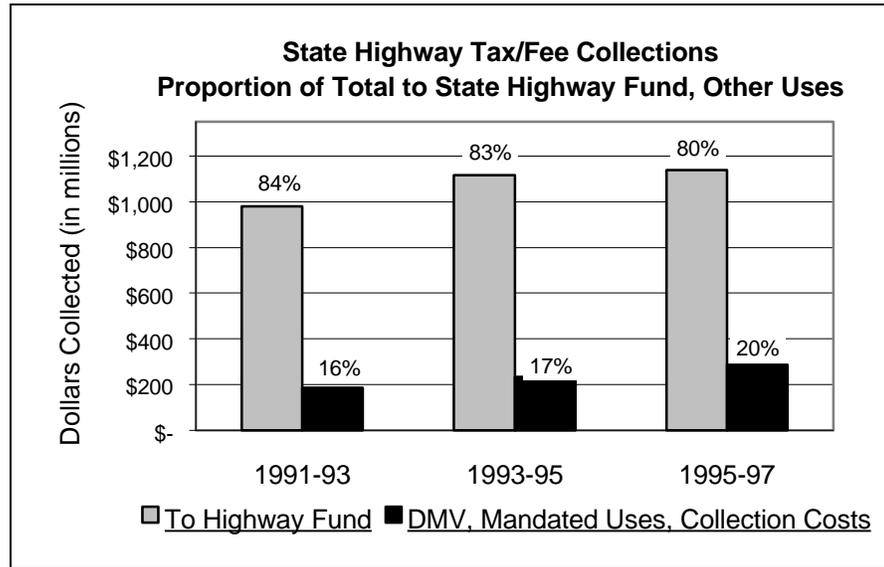
**WHICH STATE SOURCE  
SUPPLIES THE LARGEST  
PORTION OF GROSS  
COLLECTIONS?**

The following chart illustrates state sources of the \$1.43 billion collected for highway purposes during the 1995-97 biennium. Fuel taxes, the largest portion, accounted for more than half of the total amount collected.



**HOW MUCH HAS ACCRUED  
TO THE STATE HIGHWAY  
FUND OVER THE LAST THREE  
BIENNIA?**

From July 1, 1991, through June 30, 1997, more than \$3.2 billion accrued to the State Highway Fund. Net accruals to the State Highway Fund increased by approximately 16 percent during this period. However, the amount for operating expenses (primarily for DMV services), collection costs, and mandated transfers to other programs and funds increased by approximately 53 percent. As a result, as is shown in the chart on the next page, the portion of total collections accruing to the State Highway Fund decreased from 84 percent to 80 percent.



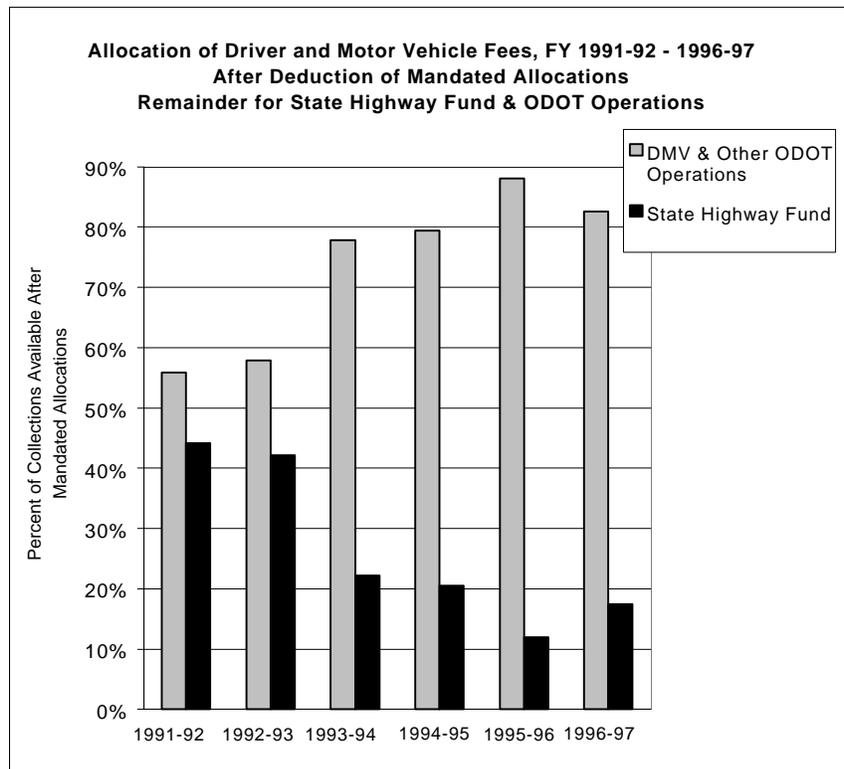
**HOW MUCH IS DEDUCTED FROM EACH REVENUE SOURCE BEFORE THE MONEY ACCRUES TO THE STATE HIGHWAY FUND?**

Table 1 on the next page shows gross 1995-97 State Highway Fund revenue collections and amounts deducted for statutorily mandated transfers, collection costs, and operating expenses. Mandated allocations amounted to approximately \$62.4 million (4 percent) of total collections.

<b>Table 1</b>			
<b>State Highway Fund Tax Collections and Distributions, 1995-97 Biennium</b>			
	<u>Collections/Transfers</u>	<u>Net Collections</u>	<u>% Total</u>
	<u>\$ rounded</u>	<u>\$ rounded</u>	<u>Collected</u>
<b>Driver and Motor Vehicle Fees</b>			
<b>(Collected by DMV &amp; MCTB)</b>			
Vehicle Registration Fees	\$ 218,831,000		15%
Mandated Allocations	\$ (38,470,000)		3%
Driver License Fees	\$ 41,811,000		3%
Mandated Allocations	\$ (8,704,000)		0.6%
DMV Collection Costs & Operations, Other ODOT Operations	\$ (182,037,000)		13%
Net to Highway Fund		\$ 31,432,000	
<b>Fuel Tax</b>			
<b>(Collected by Fuels Tax Unit)</b>			
Fuel Tax Receipts	\$ 753,580,000		53%
Collection Costs, Operations	\$ (14,817,300)		1.0%
Mandated Allocations	\$ (15,265,700)		1.1%
Net to Highway Fund		\$ 723,497,000	
<b>Weight Mile Tax</b>			
<b>(Collected by MCTB)</b>			
Weight Mile Tax Receipts	\$ 410,211,000		29%
Collection Costs, Operations	\$ (26,796,000)		2%
Net to Highway Fund		\$ 383,415,000	
<b>Other Revenue</b>			
<b>(Collected by MCTB)</b>			
Road Use Fees/Other Fees	\$ 1,411,000		0.1%
Net to Highway Fund		\$ 1,411,000	
Total Collected	\$ 1,425,844,000		100%
Total Mandated Allocations	\$ (62,439,700)		4%
Total Expenses	\$ (223,650,300)		16%
<b>Net Accrual to Highway Fund</b>		<b>\$ 1,139,754,000</b>	<b>80%</b>
Net Accrual: Local Government Portion		\$ 465,597,000	33%
Net Accrual: State Portion		\$ 674,157,000	47%

**HAS NET REVENUE FROM DRIVER AND MOTOR VEHICLE FEES INCREASED OR DECLINED?**

It has declined. The portion of total driver and motor vehicle fee collections going to the State Highway Fund fell from approximately 38 percent in fiscal year 1991-92 to 14 percent in fiscal year 1996-97. The change occurred as ODOT operating expenses--most of which were incurred by DMV--increased at a faster rate than revenue collections. The following chart, based on fee revenue available after deduction for mandated allocations, shows this trend.



**WHERE DO MANDATED ALLOCATIONS GO?**

Under state law, certain driver license and vehicle registration fees (e.g., fees for registering commercial vehicles, recreational vehicles) are dedicated to specific programs,

funds, and organizations. These mandated transfers amounted to approximately \$47.2 million during the 1995-97 biennium. The largest amounts went to the Department of Parks and Recreation (\$23.9 million), the ODOT Motor Carrier Account (\$8.5 million), the Adult and Family Services Division's Motor Vehicle Accident Fund (\$5.1 million), the ODOT Environmental Quality Account (\$2.7 million), and the Department of Education Student Driver Training Fund (\$2.5 million).

The laws also provide for the transfer of certain fuel tax collections (e.g., taxes from motor boat fuel, aviation fuel) to specific programs and accounts. These mandated transfers amounted to approximately \$15.3 million in the 1995-97 biennium. The funds went to the Marine Board (\$10.9 million), three separate all terrain vehicle accounts (\$2.8 million), two snowmobile accounts (\$1.1 million), and the ODOT Aeronautics Section (\$383,000).



## **ODOT EXPENDITURES OF HIGHWAY FUNDS**

### **WHAT TYPES OF ODOT ACTIVITIES ARE PAID FOR FROM FEDERAL OR STATE HIGHWAY FUNDS?**

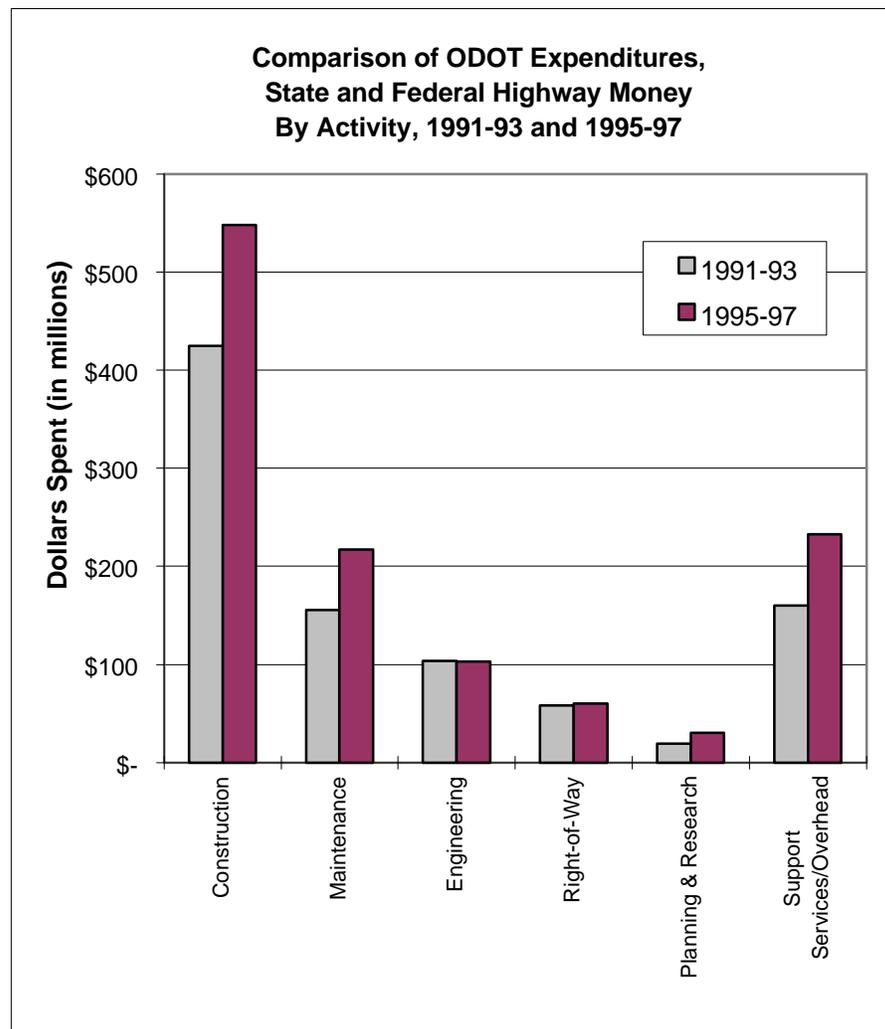
State and federal highway resources are spent on various activities summarized as follows.

- Highway construction. This is contracted work for new facilities, pavement resurfacing, safety improvements, and other large projects.
- Engineering. This includes preliminary engineering and design work, surveying, materials testing, construction project management, and related activities.
- Highway maintenance and operations. This includes shoulder maintenance, snow removal and sanding, minor pavement repair, accident response, emergency response to natural disasters, bridge maintenance, striping, traffic sign repair and replacement, drainage, and mowing and vegetation management.
- Highway planning and research.
- Right-of-way acquisition.
- Support activities and overhead expenses. Examples include administration, financial services and payroll, human resources, office supplies and equipment, facilities, legal and audit services, and information technology.

**HOW MUCH DID ODOT SPEND DURING THE LAST THREE BIENNIA FOR THE ACTIVITIES DESCRIBED ABOVE?**

From 1991-93 biennium through the 1995-97 biennium, ODOT spent more than \$3 billion for the activities described above.

The following chart illustrates changes, between 1991-93 and 1995-97, in the amount spent by activity and by biennium. The expenditures shown do not include distributions to local governments, mandated allocations, or amounts deducted and used for collection activities and DMV and MCTB operations.



**HAS THE PORTION OF FUNDING GOING FOR CONSTRUCTION AND MAINTENANCE INCREASED OR DECLINED?**

The portion going for construction has remained about the same. Table 2 compares ODOT highway money expenditures in the 1991-93 and 1995-97 bienniums. Portions increased for maintenance, planning and research, and support services and overhead. The portions for engineering and right-of-way decreased.

	Percentage Total Expenditures 1991-93 \$921.6 million	Percentage Total Expenditures 1995-97 \$1,191 million
<b>Construction</b>	46.1%	46.0%
<b>Maintenance</b>	16.9%	18.2%
<b>Engineering</b>	11.3%	8.6%
<b>Right-of-Way</b>	6.3%	5.1%
<b>Planning and Research</b>	2.1%	2.6%
<b>Support Services/Overhead</b>	<u>17.3%</u>	<u>19.5%</u>
<b>Total</b>	<u>100.0%</u>	<u>100.0%</u>

**WHERE HAVE THE LARGEST CHANGES IN SPENDING OCCURRED?**

Table 3 on the next page shows that ODOT expenditures of highway money increased by approximately \$269 million (29.2 percent) between the 1991-93 and the 1995-97 bienniums. Construction expenditures accounted for most of the increase. The greatest rates of increase

occurred in the areas of planning and research, support services and overhead, and maintenance.

**Table 3**  
**Comparison of ODOT 1991-93 and 1995-97 Expenditures**  
**By Activity, State and Federal Highway Money**

	Expenditure Increase/Decrease 1991-93 to 1995-97 \$ (rounded)	Percentage Increase/Decrease 1991-93 to 1995-97
<b>Construction</b>	\$ 122,664,000	28.9%
<b>Maintenance</b>	\$ 61,269,000	39.4%
<b>Engineering</b>	\$ (858,000)	-0.8%
<b>Right-of-Way</b>	\$ 2,131,000	3.7%
<b>Planning and Research</b>	\$ 11,142,000	58.2%
<b>Support Services/Overhead</b>	\$ 72,827,000	45.6%
<b>Total Expenditure Change</b>	<u>\$ 269,175,000</u>	<u>29.2%</u>

**WHAT WAS THE MAIN  
SOURCE OF MONEY TO  
PAY FOR THE ACTIVITIES?**

For the last three biennia, state sources provided between 60 and 67 percent of the money used to pay for the ODOT activities shown above.

## **REPORT DISTRIBUTION**

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

## **COMMENDATION**

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

## **REPORT TEAM**

Jim Scott, Lead Auditor  
Phil Burger, CPA  
Diane Farris

Jim Pitts, Audit Administrator



**SUPPLEMENT "A"**





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*Auditing for a Better Oregon*

Senator Gene Timms and  
Representative Jim Welsh, Co-Chairs  
Legislative Audit Committee

Dear Committee Members:

At the July 1, 1998 meeting of the Legislative Audit Committee, we presented our informational report concerning the Oregon Department of Transportation (ODOT) titled *Sources and Uses of Highway Funds*. That report, based mostly on internal ODOT reports, provides high-level information on highway-related revenues and ODOT expenditures.

Following the release of our report, ODOT staff presented additional expenditure information. We determined that some high-level data from ODOT's information system, that we used in our report, included some direct expenditures within administrative and overhead categories. For example, equipment repair costs, a direct highway maintenance expenditure, were incorrectly included among overhead costs.

This supplement amends the third section of the Sources and Uses of Highway Funds report titled "ODOT Expenditures of Highway Funds" to reflect the corrected expenditure classifications.

We appreciate the cooperation of ODOT staff in compiling this supplement.

We are continuing to work with the Department of Justice in answering certain questions about State Transportation Fund expenditures that were raised during our audit survey. We will present conclusions on those matters in another supplement to the original report.

OREGON AUDITS DIVISION

John N. Lattimer  
Director



## 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

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*Deputy Director*

*Deputy Director*

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This report is intended to promote  
the best possible management of public resources.



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