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Secretary of State

State of Oregon

Department of Transportation

**OREGON TRANSPORTATION  
INFRASTRUCTURE FUND**

July 1, 1997, to June 30, 1998



Audits Division

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**OREGON TRANSPORTATION  
INFRASTRUCTURE FUND**

July 1, 1997, to June 30, 1998



Audits Division



OFFICE OF THE  
SECRETARY OF STATE  
Phil Keisling  
Secretary of State  
Suzanne Townsend  
Deputy Secretary of State



AUDITS DIVISION  
John Lattimer  
Director

(503) 986-2255  
FAX (503) 378-6767

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*Auditing for a Better Oregon*

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

Grace Crunican, Director  
Department of Transportation  
355 Capitol Street NE  
Salem, Oregon 97310

This report presents the results of our annual audit of the Oregon Transportation Infrastructure Fund (OTIF).

As required by auditing standards, we performed the audit to obtain reasonable assurance about whether the financial statements and accompanying notes have been presented fairly by management. Our Independent Auditor's Report and the financial statements for the year ended June 30, 1998, are included in the Financial Section of this report. We concluded that the financial statements are fairly presented in accordance with generally accepted accounting principles.

Auditing standards also require us to review OTIF's internal control and compliance with applicable laws and regulations. Our report on the results of those reviews is included in the Audit Results section of this report. We did not note any instances of noncompliance with laws and regulations or material weaknesses in internal control over financial reporting.

We appreciate the cooperation and assistance of the management and staff of the Oregon Department of Transportation during the course of this audit.

OREGON AUDITS DIVISION

John N. Lattimer  
Director

Fieldwork Completion Date:  
May 5, 1999

-iii-



# TABLE OF CONTENTS

	<u>Page</u>
SUMMARY .....	vii
INTRODUCTION.....	1
ORGANIZATION AND FUNCTIONS .....	1
FINANCIAL ACTIVITIES .....	1
AUDIT RESULTS	
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL .....	5
COMMENDATION .....	7
FINANCIAL SECTION	
INDEPENDENT AUDITOR'S REPORT .....	11
FINANCIAL STATEMENTS	
Balance Sheet – June 30, 1998.....Exhibit A.....	13
Statement of Revenues, Expenses and Changes in Retained Earnings – For the Year Ended June 30, 1998 .....	Exhibit B..... 15
Statement of Cash Flows – For the Year Ended June 30, 1998 .....	Exhibit C..... 17
Notes to Financial Statements .....	19
SUPPLEMENTARY INFORMATION (YEAR 2000 ISSUE).....	27



## **SUMMARY**

### **BACKGROUND**

The Oregon Transportation Infrastructure Fund (OTIF) is a program within the Department of Transportation, created as part of a federal pilot project. These moneys are available to provide loans and other financial assistance for transportation projects to state agencies and local governments. As of June 30, 1998, OTIF had been capitalized with a total of \$10.9 million, with \$9.8 million from federal funds and \$1.1 million state funds.

### **AUDIT PURPOSE**

This audit was performed for the purpose of reporting on the Oregon Transportation Infrastructure Fund's financial statements as of and for the year ended June 30, 1998. Our opinion on the financial statements is included in the Financial Section of this report.

### **AUDIT RESULTS**

This audit concludes that OTIF's financial statements for the year ended June 30, 1998, which are included in this report, are fairly presented. Furthermore, we did not identify any reportable instances of noncompliance or internal control weaknesses.



## **INTRODUCTION**

### **ORGANIZATION AND FUNCTIONS**

The Oregon Transportation Infrastructure Fund (OTIF) is a program within the Department of Transportation. Established as part of a federal pilot project, the OTIF is available to provide financial assistance to local governments and state agencies for federal-aid eligible transportation projects. Funding is available for highway projects, public transit capital projects, and bike or pedestrian access on highways. It may take the form of loans or credit enhancements such as security for bond financing. The Oregon Transportation Commission approved participation in the program in May 1996. The OTIF operates under a cooperative agreement with the US Department of Transportation.

The 1997 Oregon Legislature passed House Bill 2097, which created the OTIF and allows the issuance of up to \$200 million in revenue bonds. This legislation expands the uses of the fund to allow loans to private entities.

### **FINANCIAL ACTIVITIES**

The OTIF was funded with \$10.9 million, of which 89.73 percent is federal money and the balance state matching funds. Several projects have been approved by the Transportation Commission; two loans had been made as of June 30, 1998. No bonds had been issued under OTIF as of June 30, 1998.



## **AUDIT RESULTS**



OFFICE OF THE  
SECRETARY OF STATE  
Phil Keisling  
Secretary of State  
Suzanne Townsend  
Deputy Secretary of State



AUDITS DIVISION  
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Director

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the Oregon Transportation Infrastructure Fund (OTIF) as of and for the year ended June 30, 1998, and have issued our report thereon dated May 5, 1999, which was unqualified. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether OTIF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Providing an opinion on compliance with those provisions was not an objective of our audit, however, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered OTIF's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over

-5-

financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Oregon Transportation Commission, management of the Oregon Department of Transportation and the Oregon Transportation Infrastructure Fund, the governor of the state of Oregon, the Oregon Legislative Assembly, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

#### OREGON AUDITS DIVISION

Sharron E. Walker, CPA, CFE  
Deputy Director

May 5, 1999

## **COMMENDATION**

The courtesies and cooperation extended by management and staff of the Oregon Department of Transportation during the course of our audit were very commendable and sincerely appreciated.

## **AUDIT TEAM**

Joel Leming, CPA, Audit Administrator  
Dale Schneider, CPA



**FINANCIAL SECTION**



OFFICE OF THE  
SECRETARY OF STATE  
Phil Keisling  
Secretary of State  
Suzanne Townsend  
Deputy Secretary of State



AUDITS DIVISION  
John Lattimer  
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## **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of the Department of Transportation, Oregon Transportation Infrastructure Fund as of and for the year ended June 30, 1998. These financial statements are the responsibility of the management of the Department of Transportation. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Oregon Transportation Infrastructure Fund, and are not intended to present fairly the financial position of the Oregon Department of Transportation as a whole and the results of its operations and cash flows of its governmental fund types, fiduciary fund types, and account groups in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department of Transportation, Oregon Transportation Infrastructure Fund, as of June 30, 1998, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

The Year 2000 supplementary information on page 27 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information; however, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that OTIF is or will become Year 2000 compliant, OTIF's Year 2000 remediation efforts will be successful in whole or part, or parties with which OTIF does business are or will become Year 2000 compliant.

In accordance with *Government Auditing Standards*, we also have issued our report dated May 5, 1999, on our consideration of the Oregon Transportation Infrastructure Fund's internal control over financial reporting and on our tests of its compliance with certain provisions laws and regulations. That report is separately presented in the Audit Results section of this report.

#### OREGON AUDITS DIVISION

Sharron E. Walker, CPA, CFE  
Deputy Director

May 5, 1999

State of Oregon  
**DEPARTMENT OF TRANSPORTATION**  
**OREGON TRANSPORTATION INFRASTRUCTURE FUND**  
**BALANCE SHEET**  
 June 30, 1998

ASSETS

Cash on Deposit – State Treasury	\$11,866,917
Interest Receivable – Loans	4,906
Interest Receivable – Investments	54,969
Loans Receivable – Long–Term (net of provision for loan losses)	<u>1,500,840</u>
<i>TOTAL ASSETS</i>	<u>\$13,427,632</u>

LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES

Undisbursed Loan Proceeds	\$ <u>1,516,736</u>
<i>TOTAL LIABILITIES</i>	<u>1,516,736</u>

FUND EQUITY

Contributed Capital	10,921,097
Retained Earnings	<u>989,799</u>
<i>TOTAL FUND EQUITY</i>	<u>11,910,896</u>

<i>TOTAL LIABILITIES AND FUND EQUITY</i>	<u>\$13,427,632</u>
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*The accompanying notes are an integral part of the financial statements.*



State of Oregon  
**DEPARTMENT OF TRANSPORTATION**  
**OREGON TRANSPORTATION INFRASTRUCTURE FUND**  
**STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN RETAINED EARNINGS**  
 For the Fiscal Year Ended June 30, 1998

<b>OPERATING REVENUES:</b>	
Interest Income on Loans	\$ 4,906
Application and Closing Fees	<u>15,160</u>
<i>TOTAL OPERATING REVENUES</i>	<u>20,066</u>
 <b>OPERATING EXPENSES:</b>	
Provision for Loan Losses	<u>15,160</u>
<i>TOTAL OPERATING EXPENSES</i>	<u>15,160</u>
<i>OPERATING INCOME</i>	<u>4,906</u>
 <b>NON-OPERATING REVENUES</b>	
Net Investment Income	<u>614,737</u>
<i>NET INCOME</i>	619,643
<i>RETAINED EARNINGS – 7/1/97</i>	<u>370,156</u>
<i>RETAINED EARNINGS – 6/30/98</i>	<u>\$ 989,799</u>

*The accompanying notes are an integral part of the financial statements.*



State of Oregon  
**DEPARTMENT OF TRANSPORTATION**  
**OREGON TRANSPORTATION INFRASTRUCTURE FUND**  
**STATEMENT OF CASH FLOWS**  
For the Fiscal Year Ended June 30, 1998

<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
OPERATING INCOME	\$ 4,906
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Changes in Assets and Liabilities:	
Increase in Interest Receivable – Loans	(4,906)
Increase in Loans Receivable	(1,500,840)
Increase in Undisbursed Loan Proceeds	<u>1,516,736</u>
TOTAL ADJUSTMENTS	<u>10,990</u>
<i>Net Cash Provided from Operating Activities</i>	<u>15,896</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>	
Transfer In – Federal Highway Administration	826,500
Transfer In – State Highway Fund	<u>94,597</u>
<i>Net Cash Provided from Noncapital Financing Activities</i>	<u>921,097</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Net Interest on Investments and Cash Balances	614,737
Increase in Interest Receivable – Investments	<u>(6,375)</u>
<i>Net Cash Provided from Investing Activities</i>	<u>608,362</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,545,355
CASH AND CASH EQUIVALENTS AT 7/1/97	<u>10,321,562</u>
CASH AND CASH EQUIVALENTS AT 6/30/98	<u>\$11,866,917</u>

*The accompanying notes are an integral part of the financial statements.*



State of Oregon  
**DEPARTMENT OF TRANSPORTATION**  
**OREGON TRANSPORTATION INFRASTRUCTURE FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 1998

**1. Summary of Significant Accounting Policies**

**a. Reporting Entity**

The Oregon Transportation Infrastructure Fund (OTIF) operates under the authority of Oregon Revised Statutes (ORS) 367.010 to 367.050, and related provisions. OTIF also operates under a State Infrastructure Bank Cooperative Agreement, dated August 20, 1996, between the Oregon Department of Transportation (Department), Federal Highway Administration and Federal Transit Administration. This cooperative agreement authorizes the Department to operate a State Infrastructure Bank pursuant to Section 350 of the National Highway System Designation Act of 1995.

Capitalization for OTIF is made available through federal and state funds, and the sale of revenue bonds. In general, these funds are restricted in use for specific types of transportation projects.

OTIF uses its resources to make loans and other forms of financial assistance available to cities, counties, ports, transit providers, special districts, tribal governments and state agencies for eligible transportation projects. OTIF loans involving the use of federal funds are restricted to use for highway and transit capital projects eligible under Titles 23 and 49 of the Code of Federal Regulations.

As of June 30, 1998, OTIF cash balances were held in the OTIF Highway Account of the State Highway Fund. This report does not include balances or operating results for the Department's Highway Fund or the Department as a whole.

Administrative responsibility for OTIF is divided among the Oregon Transportation Commission and the Department. The commission has adopted administrative rules and other policies to govern project selection and approval. The commission has approval authority for all projects funded through OTIF. Responsibility for the day-to-day management of OTIF has been delegated to the Department's chief financial officer.

**Department Of Transportation**  
**Oregon Transportation Infrastructure Fund**  
**Notes to the Financial Statements (continued)**  
**June 30, 1998**

**b. Basis of Presentation**

The accompanying financial statements are presented in conformity with generally accepted accounting principles (GAAP) applicable to state governments as interpreted by the Department of Administrative Services and presented in the Oregon Administrative Rules and the Oregon Accounting Manual.

OTIF is accounted for as an enterprise fund, proprietary fund type. Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises.

**c. Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

Proprietary funds are accounted for on a flow of economic resources focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e. net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets.

The accrual basis of accounting is utilized by proprietary type funds. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

**d. Budgetary Accounting**

Agency budgets are approved by the Legislature biennially. The Emergency Board of the Legislature approves any increases in the budgets that may be necessary during the interim. Legislatively approved limitations are financed from general governmental revenues or revenues of self-supporting activities of the state of Oregon. Limitations, except for capital construction, lapse at the end of each biennium.

Appropriated budgets include expenditure authority created by appropriation bills and related estimated revenues. All funds are subject to legislative approval. Nonappropriated budgets and some nonlimited financial activities are also subject to allotment control by the Department of Administrative Services.

**Department Of Transportation**  
**Oregon Transportation Infrastructure Fund**  
**Notes to the Financial Statements (continued)**  
**June 30, 1998**

**e. Receivables**

Receivables are amounts due representing revenues earned or accrued in the current period. Interest receivable includes interest due on loans, investments and cash balances.

**f. Provision for Loan Losses**

As of June 30, 1998, all OTIF program loans were current. Since this is the first fiscal year of OTIF loan activity, the Department has no historical basis for determining the percentage of loans that ultimately will be determined to be uncollectible.

The Department has established a policy whereby one percent of each new loan is reserved for future loan losses. This amount is consistent with the experiences of other state of Oregon agencies that operate similar programs. As the Department develops an actual basis for determining a provision for loan losses, this policy may be revised. Loans Receivable – Long Term is net of the cumulative loss reserve.

**g. Undisbursed Loan Proceeds**

At the time that a loan closes, OTIF transfers the proceeds of the loan to an account in OTIF that is maintained on the behalf of the borrower. Disbursements from these accounts are made as borrowers submit approved draw requests.

The Department invests undisbursed loan proceeds with other cash balances in the OTIF. Investment income on undisbursed loan proceeds is credited to borrower accounts and is available to pay project-related costs. Net investment income is total investment income on all cash balances less the amount credited to borrower accounts.

**h. Contributed Capital**

Contributed capital represents assets contributed to OTIF:

State Sources

State Highway Fund	\$ 1,121,597
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Federal Sources

Federal Highway Administration	<u>9,799,500</u>
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Total Contributed Capital	<u>\$10,921,097</u>
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**Department Of Transportation**  
**Oregon Transportation Infrastructure Fund**  
**Notes to the Financial Statements (continued)**  
**June 30, 1998**

On June 19, 1997, the U.S. Department of Transportation awarded the OTIF \$5.51 million of federal funds. These funds are available to be drawn over nine years and may be used for eligible highway or transit capital projects. As of June 30, 1998, OTIF has drawn \$826,500 of these funds. The balance is available to be drawn in future years.

**i. Administrative Expenses**

The Department's Financial Services Section provides staff and other operational support (office space, professional services, supplies, equipment, etc.) for OTIF. During the period of this report, no expenses were charged to OTIF to offset the Department's cost of providing this support. If these costs had been charged to OTIF, the effect would have been to reduce net income, retained earnings and fund equity.

The Department has elected to fund the administration of OTIF as a way of supporting the program during the start-up phase and to maximize the amount of OTIF funds that ultimately will be available to lend. In the future, the Department intends to charge OTIF for all or a portion of its costs. The Department does not expect to be reimbursed for any costs incurred to date.

**2. Cash on Deposit—State Treasury**

Cash on deposit in the State Treasury includes cash on deposit with financial institutions and cash invested by the State Treasurer on a short-term basis. The state is authorized to use demand deposits and certificates of deposit. The cash on deposit with financial institutions is insured either through federal depository insurance or the statewide collateral pool under provisions of ORS 295. Of the collateral pool deposits, 25 percent are secured and 75 percent unsecured.

The book and bank balance of cash on deposit with the State Treasury at June 30, 1998, was \$11,866,917.

**3. Bonds Issued and Outstanding**

In the future, the Department and the Oregon Transportation Commission may elect to issue revenue bonds for the purposes of providing capital for the Oregon Transportation Infrastructure Bank. As of the June 30, 1998, no such bonds have been issued or are outstanding.

**Department Of Transportation**  
**Oregon Transportation Infrastructure Fund**  
**Notes to the Financial Statements (continued)**  
**June 30, 1998**

**4. Commitments**

Projects approved for financing prior to June 30, 1998, but not disbursed at fiscal year end were:

<u>Borrower</u>	<u>Project</u>	<u>Amount</u>
Washington County	Cedar Hills Blvd./Barnes Road	\$1,011,552
Washington County	Dixie Mountain Road	721,000
City of Hood River	Vehicle Maintenance Facility	169,113
Metro	Transit Oriented Development Project	<u>2,000,000</u>
Total		<u>\$3,901,665</u>

Subsequent to June 30, 1998, the Washington County projects were withdrawn. Loan amounts for the remaining projects are subject to change.

**5. Subsequent Events**

On June 24, 1998, the U.S. Department of Energy approved a Stripper Well Expenditure Plan submitted by the Department. This plan provides that the Oregon Department of Administrative Services will transfer a portion of the state's Petroleum Violation Escrow (PVE) funds to OTIF. These funds will be used as non-federal match to establish an OTIF Public Transit Revolving Loan Fund. In September, the Department received a distribution of PVE funds totaling \$357,809. The Department expects that additional distributions of PVE funds will be received during the fiscal year ending June 30, 1999.

In January 1999, the Department and Lane Transit District ("LTD") mutually agreed to terminate a loan agreement entered into on May 15, 1998. The agreed upon termination date for this \$781,000 loan was January 31, 1999. Under the terms of the termination agreement, LTD authorized the Department to apply the undisbursed portion of the loan in payment of LTD's obligation. The agreement also stipulated that the Department was to retain the full amount of the loan fee paid by LTD and accrued interest on the loan from the loan closing date to the termination date. As of June 30, 1998, the portion of long-term Loans Receivable attributable to the LTD loan was \$773,190, and the Undisbursed Loan Proceeds were \$778,776.



**SUPPLEMENTARY INFORMATION**



State of Oregon  
**DEPARTMENT OF TRANSPORTATION**  
**OREGON TRANSPORTATION INFRASTRUCTURE FUND**  
**SUPPLEMENTARY INFORMATION**  
For the Year Ended June 30, 1998

**UNAUDITED**

The following disclosure is required by the Governmental Accounting Standards Board and is provided under the provisions of the Year 2000 Information and Readiness Disclosure Act, Public Law 105-271 (1998).

The Year 2000 issue is a result of shortcomings in many electronic data systems and other electronic equipment that may adversely affect OTIF's operations. In conjunction with the Department, OTIF is completing an inventory of its primary internal computer systems and other electronic equipment that may be affected by the Year 2000 issue and are necessary to conduct OTIF's operations.

There are several stages involved in making information systems ready for the year 2000. These stages are:

- Awareness – Establishing a project plan and budget for dealing with the Year 2000 issue.
- Assessment – Identifying the information systems and their components and checking them for readiness.
- Remediation – Making changes to systems to achieve Year 2000 readiness. This can involve purchasing new equipment or rewriting computer code.
- Validation and testing – Determining that the conversion of existing systems was successful.

OTIF processes accounting transactions using the Department's financial management systems. The Department has completed the awareness stage for all its mission critical systems, and is in the process of assessment, remediation, and testing of those systems. The Department also is developing business continuation plans to deal with internal and external year 2000 issues. OTIF expects to have all of its systems compliant; however, no contracts specifically related to Year 2000 remediation are outstanding as of June 30, 1998.

Because of the unprecedented nature of the Year 2000 problem, its effects and the success of related correction efforts will not be fully determinable until the Year 2000 and thereafter. Management cannot assure that the Department is or will be Year 2000 ready, that OTIF's remediation efforts will be completely successful, or that parties with whom OTIF does business will be Year 2000 ready.



## **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

Sharron E. Walker, CPA, CFE

Catherine E. Pollino, CGFM



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Oregon Audits Division  
Public Service Building  
Salem, Oregon 97310

503-986-2255

We invite comments on our reports through our Hotline or Internet address.

Hotline: 800-336-8218

Internet: [Audits.Hotline@state.or.us](mailto:Audits.Hotline@state.or.us)

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