
Secretary of State

State of Oregon

Department of Transportation

OREGON TRANSPORTATION

INFRASTRUCTURE FUND

For the Years Ended June 30, 1999 and 1998



Audits Division

Secretary of State

State of Oregon
Department of Transportation
**OREGON TRANSPORTATION
INFRASTRUCTURE FUND**

For the Years Ended June 30, 1999 and 1998



Audits Division

OFFICE OF THE
SECRETARY OF STATE
Bill Bradbury
Secretary of State
Suzanne Townsend
Deputy Secretary of State



AUDITS DIVISION
John Lattimer
Director

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

Auditing for a Better Oregon

The Honorable John Kitzhaber, M.D.
Governor of Oregon
State Capitol
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 Auditors Report and the financial statements as of and for the years ended June 30, 1999 and 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:
February 8, 2000

-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 Sheets – June 30, 1999 and June 30, 1998	Exhibit A 13
Statements of Revenues, Expenses and Changes in Retained Earnings – For the Fiscal Years Ended June 30, 1999 and June 30, 1998 ...	Exhibit B 15
Statements of Cash Flows – For the Fiscal Years Ended June 30, 1999 and 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, 1999, OTIF had been capitalized with a total of \$14.2 million federal and state moneys, and had made three loans.

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 years ended June 30, 1999 and June 30, 1998, and on internal control and compliance with laws and regulations.

AUDIT RESULTS

This audit concludes that OTIF's financial statements for the years ended June 30, 1999 and June 30, 1998, which are included in this report, are fairly presented. Our review and evaluation of OTIF's internal control and test of compliance with laws and regulations disclosed no significant findings.

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 U.S. 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 also expands the uses of the fund to allow loans to private entities.

FINANCIAL ACTIVITIES

Thus far, the OTIF has been funded with \$14.2 million, of which 89.73 percent is federal money and the balance is state matching funds. Although several projects have been approved by the Transportation Commission to date, three loans have actually been made in the amount of \$5,916,000, and one of these has been fully paid off. No bonds have been issued under OTIF.

AUDIT RESULTS

OFFICE OF THE
SECRETARY OF STATE
Bill Bradbury
Secretary of State
Suzanne Townsend
Deputy Secretary of State



AUDITS DIVISION
John Lattimer
Director

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

Auditing for a Better Oregon

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

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

**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 years ended June 30, 1999 and 1998, and have issued our report thereon dated February 8, 2000. We conducted our audits 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. However, providing an opinion on compliance with those provisions was not an objective of our audits, 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 audits, 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 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, 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

Fieldwork Completion Date:
February 8, 2000

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
Bob Jordan, CPA

FINANCIAL SECTION

OFFICE OF THE
SECRETARY OF STATE
Bill Bradbury
Secretary of State
Suzanne Townsend
Deputy Secretary of State



AUDITS DIVISION
John Lattimer
Director

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

Auditing for a Better Oregon

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

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Department of Transportation, Oregon Transportation Infrastructure Fund, as listed in the table of contents, as of and for the years ended June 30, 1999 and 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 audits.

We conducted our audits 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 audits provide 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.

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, that OTIF's Year 2000 remediation efforts will be successful in whole or part, or that parties with which OTIF does business are or will become Year 2000 compliant.

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, 1999 and 1998, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2000, 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

Fieldwork Completion Date:
February 8, 2000

STATE OF OREGON
DEPARTMENT OF TRANSPORTATION
OREGON TRANSPORTATION INFRASTRUCTURE FUND
BALANCE SHEETS
 June 30, 1999 and June 30, 1998

ASSETS

	<u>1999</u>	<u>1998</u>
Cash on Deposit – State Treasury	\$15,229,780	\$11,866,917
Interest Receivable – Loans	331	4,906
Interest Receivable – Investments	116,455	54,969
Loan Fees Receivable	44,000	–
Loans Receivable (net)	<u>4,845,558</u>	<u>1,500,840</u>
 <i>TOTAL ASSETS</i>	 <u>\$20,236,124</u>	 <u>\$13,427,632</u>

LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES		
Accrued Administrative Expenses	\$ 29,950	\$ –
Undisbursed Loan Proceeds	<u>4,416,436</u>	<u>1,516,736</u>
 <i>TOTAL LIABILITIES</i>	 <u>4,446,386</u>	 <u>1,516,736</u>
 FUND EQUITY		
Contributed Capital	14,175,638	10,921,097
Retained Earnings	<u>1,614,100</u>	<u>989,799</u>
 <i>TOTAL FUND EQUITY</i>	 <u>15,789,738</u>	 <u>11,910,896</u>
 <i>TOTAL LIABILITIES AND FUND EQUITY</i>	 <u>\$20,236,124</u>	 <u>\$13,427,632</u>

The notes to the financial statements are an integral part of this report.

STATE OF OREGON
DEPARTMENT OF TRANSPORTATION
OREGON TRANSPORTATION INFRASTRUCTURE FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
For the Fiscal Years Ended June 30, 1999 and June 30, 1998

	<u>1999</u>	<u>1998</u>
OPERATING REVENUES:		
Interest Income on Loans	\$ 22,212	\$ 4,906
Application and Closing Fees	<u>44,000</u>	<u>15,160</u>
<i>TOTAL OPERATING REVENUES</i>	<u>66,212</u>	<u>20,066</u>
OPERATING EXPENSES:		
Administrative Expenses	29,950	-
Provision for Loan Losses	<u>44,000</u>	<u>15,160</u>
<i>TOTAL OPERATING EXPENSES</i>	<u>73,950</u>	<u>15,160</u>
<i>OPERATING INCOME (LOSS)</i>	<u>(7,738)</u>	<u>4,906</u>
NON-OPERATING REVENUES		
Net Investment Income	<u>632,039</u>	<u>614,737</u>
<i>NET INCOME (LOSS)</i>	624,301	619,643
<i>RETAINED EARNINGS – Beginning</i>	<u>989,799</u>	<u>370,156</u>
<i>RETAINED EARNINGS – Ending</i>	<u>\$1,614,100</u>	<u>\$ 989,799</u>

The notes to the financial statements are an integral part of this report.

STATE OF OREGON
DEPARTMENT OF TRANSPORTATION
OREGON TRANSPORTATION INFRASTRUCTURE FUND
STATEMENTS OF CASH FLOWS
For the Fiscal Years Ended June 30, 1999 and June 30, 1998

	<u>1999</u>	<u>1998</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
OPERATING INCOME (LOSS)	\$ (7,738)	\$ 4,906
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Changes in Assets and Liabilities:		
(Increase)/Decrease in Interest Receivable - Loans	4,575	(4,906)
(Increase)/Decrease in Loans Receivable	(3,344,718)	(1,500,840)
(Increase)/Decrease in Loan Fees Receivable	(44,000)	—
Increase/(Decrease) in Accrued Administrative Expenses	29,950	—
Increase/(Decrease) in Undisbursed Loan Proceeds	<u>2,899,700</u>	<u>1,516,736</u>
<i>Net Cash Provided/(Used) by Operating Activities</i>	<u>(462,231)</u>	<u>15,896</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>		
Transfer In – Federal Highway Administration	2,920,300	826,500
Transfer In – Department of Administrative Services	334,241	—
Transfer In – State Highway Fund	<u>—</u>	<u>94,597</u>
<i>Net Cash Provided/(Used) by Noncapital Financing Activities</i>	<u>3,254,541</u>	<u>921,097</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Net Interest on Investments and Cash Balances	632,039	614,737
(Increase)/Decrease in Interest Receivable – Investments	<u>(61,486)</u>	<u>(6,375)</u>
<i>Net Cash Provided/(Used) by Investing Activities</i>	<u>570,553</u>	<u>608,362</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,362,863	1,545,355
CASH AND CASH EQUIVALENTS – Beginning	<u>11,866,917</u>	<u>10,321,562</u>
CASH AND CASH EQUIVALENTS – Ending	<u>\$15,229,780</u>	<u>\$11,866,917</u>

The notes to the financial statements are an integral part of this report.

STATE OF OREGON
DEPARTMENT OF TRANSPORTATION
OREGON TRANSPORTATION INFRASTRUCTURE FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 1999 and 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. The 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 the 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.

The 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, 1999, the OTIF cash balances were held in the OTIF Highway and Transit Accounts of the State Highway Fund. No reporting information is provided in this report for the Department's Highway Fund or the Department as a whole.

Administrative responsibility for the OTIF is divided between 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 the OTIF. Responsibility for the day-to-day management of the OTIF has been delegated to the Department's Chief Financial Officer.

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 Administrative Rules and the Oregon Accounting Manual.

Notes to the Financial Statements (continued)
June 30, 1999 and June 30, 1998

The 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.

All 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 non-limited financial activities are also subject to allotment control by the Department of Administrative Services. Beginning July 1, 1999, the OTIF lending activities will be included in the non-limited portion of the Department's budget.

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, 1999, all OTIF program loans were current. 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.

Notes to the Financial Statements (continued)
June 30, 1999 and June 30, 1998

Loans Receivable is net of the cumulative loss reserve. As of June 30, 1999 and 1998, the cumulative loss reserve was \$59,160 and \$15,160, respectively.

g. Undisbursed Loan Proceeds

At the time that a loan closes, the OTIF transfers the proceeds of the loan to an account in the 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 the OTIF:

State Sources

State Highway Fund	\$1,121,597
Department of Administrative Services	334,241

Federal Sources

Federal Highway Administration	<u>12,719,800</u>
--------------------------------	-------------------

Total Contributed Capital	<u>\$14,175,638</u>
---------------------------	---------------------

On June 19, 1997, the U.S. Department of Transportation awarded the OTIF \$5.51 million of federal general 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, 1999 and 1998, the OTIF had drawn \$3,746,800 and \$826,500 of these funds respectively. 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 the OTIF. The Department began charging the OTIF for a portion of the Department's costs of providing this support in the fiscal year ending June 30, 1999. Administrative expenses charged to the OTIF during the fiscal year totaled \$29,950. No administrative expenses were charged to the OTIF in the fiscal year ending June 30, 1998.

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

Notes to the Financial Statements (continued)
June 30, 1999 and June 30, 1998

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 balances of cash on deposit with the State Treasury as of June 30, 1999 and 1998, were \$15,229,780 and \$11,866,917, respectively.

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 date of this report, no such bonds have been issued or are outstanding.

4. Commitments

Projects approved for financing prior to June 30, 1999, but not disbursed at fiscal year end, were:

<u>Borrower</u>	<u>Project</u>	<u>Amount</u>
Port of Hood River	Interstate Bridge Lift Control Update	\$ 600,000
Sunset Empire Transportation District	Intermodal Center Design	225,000
City of Hood River	Vehicle Maintenance Facility	169,113
Metro	Transit Oriented Development Project	<u>2,000,000</u>
Total		<u><u>\$2,994,113</u></u>

Subsequent to June 30, 1999, loans to the Port of Hood River and Sunset Empire Transportation District were closed. Loan amounts for the remaining projects are subject to change.

5. Litigation

During the ordinary course of business, the OTIF may become involved in litigation regarding its lending activities. The program is represented in these actions by the Attorney General of the State of Oregon. The OTIF was not a party to any litigation as of June 30, 1999.

6. Subsequent Events

On September 1, 1999, Governor Kitzhaber signed House Bill 2197 (Chapter 1036, Oregon Laws 1999). The bill has an effective date of October 23, 1999. This bill authorizes the OTIF to provide loan guarantees for transportation projects with these guarantees backed by up to \$10 million of State Highway Fund revenues. In addition, the bill authorizes the Department to issue up to \$58.4 million of Highway User Tax

Notes to the Financial Statements (continued)
June 30, 1999 and June 30, 1998

Revenue Bonds to fund various local street projects and access purchases. The Department has determined that these bond-funded programs will be managed through the OTIF.

Subsequent to fiscal year end, the Department deposited an additional \$881,600 of Federal Highway Administration funds into the OTIF Highway Account. This was the amount available in federal fiscal year 1999 from the \$5.51 million awarded to the OTIF in 1997 (see Note 1h. – Contributed Capital). These funds were matched with an allocation of Stripper Well funds from the Department of Administrative Services.

SUPPLEMENTARY INFORMATION

State of Oregon
DEPARTMENT OF TRANSPORTATION
OREGON TRANSPORTATION INFRASTRUCTURE FUND
SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 1999

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 Department is currently addressing Year 2000 issues relating to its information technology systems and other electronic equipment. The Year 2000 issue refers to the fact that many computer programs use only the last two digits to refer to a year. Therefore, both 1900 and 2000 would be referred to as "00." Business functions that rely upon electronic organization and communication of information may be adversely affected by such systems. Also, the Year 2000 problem could affect electronic equipment (such as environmental systems, elevators and vehicles) containing embedded computer chips that have date recognition features.

The Department has created a Year 2000 project team to address the Year 2000 issue. The project team has identified more than 100 information systems that are critical to conducting the Department's business. Of these systems, five are being tracked at the statewide level by the Department of Administrative Services. The Department's Year 2000 project team is also addressing critical infrastructure and devices with embedded chips. In conjunction with this effort, the OTIF has completed an inventory of its primary internal computer systems and other electronic equipment that may be affected by the Year 2000 issue and that are necessary to conduct OTIF 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.

- Implementation – Implementing or placing the remediated computer code into a ‘production’ environment for actual business use.

The OTIF processes accounting transactions using the Department’s financial management systems. The Department has completed the awareness, assessment, remediation, validation and testing stages for all its mission-critical systems. The Department also has developed business continuation plans to deal with internal and external year 2000 issues. The Department had \$17.7 million in significant commitments associated with the Year 2000 compliance issues as of June 30, 1999.

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 the OTIF’s remediation efforts will be completely successful, or that parties with whom the 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



This report, which is a public record, is intended to promote the best possible management of public resources.

If you received a copy of an audit and no longer need it, you may return it to the Audits Division. We maintain an inventory of past audit reports. Your cooperation will help us save on printing costs.

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

<http://www.sos.state.or.us/audits/audithp.htm>

Auditing to Protect the Public Interest and Improve Oregon Government