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Secretary of State

State of Oregon

**DEPARTMENT OF TRANSPORTATION**  
**Oregon Transportation Infrastructure Fund**  
For the Years Ended June 30, 2000 and 1999



**Audits Division**

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**Audits Division**

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*Auditing for a Better Oregon*

The Honorable John Kitzhaber, M.D.  
Governor of Oregon  
254 State Capitol  
Salem, Oregon 97310-4047

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, 2000 and 1999, are included in the Financial Section of this report. We concluded 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:  
December 15, 2000



# 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, 2000 and June 30, 1999.....	Exhibit A ..... 13
Statements of Revenues, Expenses and Changes in Retained Earnings – For the Fiscal Years Ended June 30, 2000 and June 30, 1999.....	Exhibit B ..... 15
Statements of Cash Flows – For the Fiscal Years Ended June 30, 2000 and June 30, 1999.....	Exhibit C ..... 17
Notes to Financial Statements.....	19



## **SUMMARY**

### **BACKGROUND**

The Oregon Transportation Infrastructure Fund (OTIF) is a program within the Oregon Department of Transportation (ODOT), created as part of a federal pilot project. These moneys are available to provide loans and other financial assistance for eligible transportation projects. As of June 30, 2000, OTIF had been capitalized with a total of \$15.2 million of federal and state moneys, and had made eight 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, 2000 and June 30, 1999, 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, 2000 and June 30, 1999, 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 provides 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 \$15.2 million, of which 89.73 percent is federal money and the balance is state matching funds. To date, eight loans have been made for a total of \$11.2 million; one loan has been cancelled and one of these has been fully paid off. No bonds have been issued under OTIF.

A project begins when OTIF management negotiates a loan with a local jurisdiction to finance a transportation project. Repayment conditions, including the source of funds to be used for repayment of the loan, are specified in a loan agreement. The agreement may, for example, specify that 80 percent of the loan will be repaid from federal funds and 20 percent from local funds. OTIF establishes a borrower's account in the full amount of the loan.

While the loan proceeds are credited to the borrower, OTIF maintains control of the funds at all times. Interest earned while the funds are on deposit in the State Treasury is available to be used for the project or to repay the outstanding loan.

ODOT manages the entire project and the ODOT project manager authorizes all payments to contractors. The payments are drawn from the State's Highway Fund, following standard procedures. The Highway Fund is then reimbursed by drawing down funds from OTIF's account in the State Treasury.

To repay the loan, OTIF invoices the borrower for the entire loan amount. If federal funds are identified as a source of funds for repayment, OTIF invoices the Federal government for the federal share of the loan and invoices the borrower for the remainder of the outstanding loan. When a payment is received, it is deposited into the OTIF account. As the loans are repaid, funds become available for new projects. The intent is for the OTIF to become a self-sustaining transportation improvement fund.

## **AUDIT RESULTS**





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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 years ended June 30, 2000 and June 30, 1999, and have issued our report thereon dated December 15, 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, regulations, contracts, and grants, 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 audit, 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 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. However, we noted other matters involving internal control over financial reporting that we have reported to management in a separate letter.

This report is intended solely for the information and use of the Oregon Transportation Commission, management of 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:  
December 15, 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  
Nancy Winston, CPA, CISA



## **FINANCIAL SECTION**





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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 listed in the table of contents, as of and for the years ended June 30, 2000 and 1999. 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 these audits 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.

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, 2000 and 1999, 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 December 15, 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, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

OREGON AUDITS DIVISION

Sharron E. Walker, CPA, CFE  
Deputy Director

December 15, 2000

STATE OF OREGON  
DEPARTMENT OF TRANSPORTATION  
OREGON TRANSPORTATION INFRASTRUCTURE FUND  
Balance Sheets  
June 30, 2000 and June 30, 1999

ASSETS		
	<u>2000</u>	<u>1999</u>
Cash on Deposit – OTIF	\$ 9,248,889	\$10,813,344
Cash on Deposit – Borrower Accounts – Restricted	6,839,627	4,416,436
Interest Receivable – State Treasury	50,403	116,455
Interest Receivable – Borrower Accounts – Restricted	33,258	–
Due From Other Funds	477,319	–
Loan Fees Receivable	–	44,000
Interest Receivable – Loans	93,635	331
Loans Receivable (Net)	<u>7,887,051</u>	<u>4,845,558</u>
<i>TOTAL ASSETS</i>	<u>\$24,630,182</u>	<u>\$20,236,124</u>
LIABILITIES AND FUND EQUITY		
<b>CURRENT LIABILITIES:</b>		
Due to Other Governments	\$ 147,992	\$ –
Due to Other Funds	51,252	29,950
Accounts Payable	14,570	–
Undisbursed Loan Proceeds	<u>6,872,885</u>	<u>4,416,436</u>
<i>TOTAL LIABILITIES</i>	<u>7,086,699</u>	<u>4,446,386</u>
<b>FUND EQUITY:</b>		
Contributed Capital	15,158,143	14,175,638
Retained Earnings	<u>2,385,340</u>	<u>1,614,100</u>
<i>TOTAL FUND EQUITY</i>	<u>17,543,483</u>	<u>15,789,738</u>
<i>TOTAL LIABILITIES AND FUND EQUITY</i>	<u>\$24,630,182</u>	<u>\$20,236,124</u>

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



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, 2000 and June 30, 1999

	<u>2000</u>	<u>1999</u>
OPERATING REVENUES:		
Interest Income on Loans	\$ 200,231	\$ 22,212
Closing Fees	<u>52,650</u>	<u>44,000</u>
<i>TOTAL OPERATING REVENUES</i>	<u>252,881</u>	<u>66,212</u>
OPERATING EXPENSES:		
Administrative Expenses	65,832	29,950
Provision for Loan Losses	<u>26,242</u>	<u>44,000</u>
<i>TOTAL OPERATING EXPENSES</i>	<u>92,074</u>	<u>73,950</u>
<i>OPERATING INCOME (LOSS)</i>	<u>160,807</u>	<u>(7,738)</u>
NON-OPERATING REVENUES:		
Net Investment Income	<u>610,433</u>	<u>632,039</u>
<i>NET INCOME</i>	771,240	624,301
<i>RETAINED EARNINGS – Beginning</i>	<u>1,614,100</u>	<u>989,799</u>
<i>RETAINED EARNINGS – Ending</i>	<u>\$2,385,340</u>	<u>\$1,614,100</u>

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



STATE OF OREGON  
**DEPARTMENT OF TRANSPORTATION**  
**OREGON TRANSPORTATION INFRASTRUCTURE FUND**  
**Statements of Cash Flows**  
For the Fiscal Years Ended June 30, 2000 and June 30, 1999

	<u>2000</u>	<u>1999</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>		
Operating Income (Loss)	\$ 160,807	\$ (7,738)
<b>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
<i>Changes in Assets and Liabilities:</i>		
Increase/(Decrease) in Allowance for Doubtful Accounts	26,242	44,000
(Increase)/Decrease in Interest Receivable – Loans	(93,304)	4,575
(Increase)/Decrease in Loans Receivable	(3,067,735)	(3,388,718)
(Increase)/Decrease in Loan Fees Receivable	44,000	(44,000)
(Increase)/Decrease in Due from Other Funds	(472,972)	–
(Increase)/Decrease in Borrower Accounts Interest Receivable	(33,258)	–
Increase/(Decrease) in Due to Other Governments	147,992	–
Increase/(Decrease) in Due to Other Funds	21,302	29,950
Increase/(Decrease) in Accounts Payable	14,570	–
Increase/(Decrease) in Undisbursed Loan Proceeds	<u>2,456,449</u>	2,899,700
<i>Net Cash Provided/(Used) by Operating Activities</i>	<u>(795,907)</u>	<u>(462,231)</u>
<b><u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</u></b>		
Transfer In – Federal Highway Administration	881,600	2,920,300
Transfer In – Department of Administrative Services	<u>96,558</u>	<u>334,241</u>
<i>Net Cash Provided/(Used) by Noncapital Financing Activities</i>	<u>978,158</u>	<u>3,254,541</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>		
Net Interest on Investments and Cash Balances	610,433	632,039
Decrease/(Increase) in Interest Receivable – State Treasury	<u>66,052</u>	<u>(61,486)</u>
<i>Net Cash Provided/(Used) by Investing Activities</i>	<u>676,485</u>	<u>570,553</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	858,736	3,362,863
CASH AND CASH EQUIVALENTS – Beginning	<u>15,229,780</u>	<u>11,866,917</u>
CASH AND CASH EQUIVALENTS – Ending	<u>\$16,088,516</u>	<u>\$15,229,780</u>
<b><u>NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</u></b>		
Due From Other Funds	<u>\$ 4,347</u>	<u>\$ –</u>

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



STATE OF OREGON  
**OREGON TRANSPORTATION INFRASTRUCTURE FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2000 and June 30, 1999

**1. Summary of Significant Accounting Policies**

**a. Reporting Entity**

The Oregon Transportation Infrastructure Fund (the "OTIF") operates under the authority of Oregon Revised Statutes (ORS) 367.010 to 367.060, and related provisions. The OTIF also operates under a State Infrastructure Bank Cooperative Agreement dated August 20, 1996 between the Oregon Department of Transportation (the "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 January 1, 2000 the OTIF cash balances were transferred from the State Highway Fund to individual accounts in the State Treasury. 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 (the "OTC") 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 Oregon Department of Administrative

**Notes to the Financial Statements (continued)**  
**June 30, 2000 and June 30, 1999**

Services and presented in the Administrative Rules and the Oregon Accounting Manual.

The OTIF is accounted for as a Proprietary Fund Type. The Proprietary Fund Type used is an Enterprise Fund. Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that costs of providing goods and services to the general public be financed or recovered primarily through user charges.

**c. Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Proprietary Fund Types 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 Fund Types 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. Proprietary Fund Types utilize the accrual basis of accounting. 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 also are subject to allotment control by the Department of Administrative Services. Beginning July 1, 1999, the OTIF lending activities were 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 from the State Treasury is presented between the Borrower Accounts and the OTIF. Due to/from other funds represent interfund receivables and payables from other Funds within the Department. All of the due to/from amounts represent accruals to or from the Highway Fund.

**Notes to the Financial Statements (continued)**  
**June 30, 2000 and June 30, 1999**

**f. Provision for Loan Losses**

As of June 30, 2000, all loans in the OTIF portfolio were current. In order to provide a reserve for potential future loan losses, the Department has implemented a policy that requires one percent of each new loan to be expensed to establish the reserve account. The policy also allows the Department to adjust that percentage and/or increase or reduce the cumulative loss reserve to reflect changes in portfolio status. For the year ended June 30, 2000, the Department's analysis of the portfolio determined that an adequate level of reserves could be obtained by charging less than one percent of new loans. Loans Receivable is presented net of the cumulative loss reserve. As of June 30, 2000 and 1999, the cumulative loss reserve was \$85,402 and \$59,160, 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 for additional project-related costs. Proceeds not used in the project are returned to the OTIF and the loan balance is adjusted accordingly. Net investment income is presented as 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 from the following sources:

**State Sources**

State Highway Fund	\$1,121,597
Department of Administrative Services	435,146

**Federal Sources**

Federal Highway Administration	<u>13,601,400</u>
Total Contributed Capital	<u>\$15,158,143</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, 2000 and 1999, the OTIF had drawn \$4,628,400 and \$3,746,800 of these funds, respectively. The balance is available to be drawn in future years.

**Notes to the Financial Statements (continued)**  
**June 30, 2000 and June 30, 1999**

**i. Administrative Expenses**

The Department's Financial Services Unit 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 ended June 30, 1999. Administrative expenses charged to the OTIF for the fiscal years ended June 30, 2000 and 1999 were \$65,832 and \$29,950, respectively.

**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 balances of cash on deposit with the State Treasury as of June 30, 2000 and 1999, were \$16,088,516 and \$15,229,780, respectively. The total amount of undisbursed loan proceeds in borrower's accounts is presented as restricted cash.

**3. Bonds Issued and Outstanding**

As authorized by ORS 367.025 and 367.030, the OTC and the Department may elect to issue revenue bonds for the purposes of providing capital for the OTIF. As of the date of this report, no such bonds have been issued.

**4. 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, 2000.

**5. Subsequent Event**

On August 1, 2000, the Department issued \$58,355,000 of highway user tax revenue bonds. The proceeds of these bonds will be used to fund various highway modernization, local street and access management projects throughout the state, and to pay the costs of issuance of the bonds. The bonds are not liabilities of the OTIF and the bond proceeds will not be deposited into the OTIF. However, as part of their regular duties, OTIF staff will provide management and oversight of the project selection process and expenditure of bond proceeds.

## **FACTS ABOUT THE SECRETARY OF STATE AUDITS DIVISION**

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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**

<i>Director</i>	John N. Lattimer
<i>Deputy Director</i>	Catherine E. Pollino, CGFM
<i>Deputy Director</i>	Sharron E. Walker, CPA, CFE

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

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

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

***Auditing to Protect the Public Interest and Improve Oregon Government***

