

Secretary of State Audit Report

Kate Brown, Secretary of State

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Oregon Travel Experience: Highway Funds Spent Appropriately and Progress Made on Prior Recommendations

Summary

The Oregon Travel Information Council, operating as Oregon Travel Experience (OTE), is a semi-independent state agency governed by a council of 11 members. OTE currently manages a variety of travel assistance programs, including 20 of Oregon's 77 roadside rest areas. Beginning in 2009, the Legislature transferred rest areas from the Oregon Department of Transportation to OTE along with state highway funds to pay for their operation and maintenance. OTE received \$4.96 million in calendar year 2013 to manage 20 rest areas.

We audited the state highway funds at OTE in compliance with legislation passed during the 2012 Session. Our audit objective was to determine if state highway funds were spent in accordance with state and federal rules. We also performed preliminary work around the use of OTE's other funds generated from its sign programs. We did not find any improprieties at OTE and concluded the highway funds were used for the purposes intended.

In September 2012, we issued the report, *Oregon Travel Experience: Improve Accountability*; we did not find any improprieties at OTE, but noted indications of risk in the organization and its procedures. We recommended better reporting and transparency, and additional policies to ensure the appropriate and prudent use of public funds. We also recommended legislative consideration for a biennial financial review or reconsideration of the semi-independent status of OTE.

This report provides the implementation status, as of May 2013, of the audit recommendations made in the September 2012 report. The results of our follow-up work are included in figure 2. Before the end of our 2012 audit, OTE experienced some changes in leadership. Pursuant to the 2012 legislation, the Governor appointed six new members to the council. In addition, the council hired a new CEO in December 2012. Since the release of our previous report, OTE has made progress in implementing the recommendations. Most notably, the council and new CEO have shown a commitment to transparency and accountability.

Agency Response

The agency response is attached at the end of the report.

Background

OTE was established as the Oregon Travel Information Council in 1972 to implement the Federal Highway Beautification Act. The Act encouraged states to replace highway billboards with business logo signs as a means of directing motorists to essential services. From the mid-1970s to 2010, OTE added several motorist-related programs to its operations. Currently, OTE's portfolio includes business logo signs on the interstate highways, travel plazas, Tripcheck.com, and the management of selected rest areas throughout the state. OTE's mission is to create a great visitor experience by providing direction to destinations, connecting travelers with Oregon's resources, and ensuring safe and convenient travel.

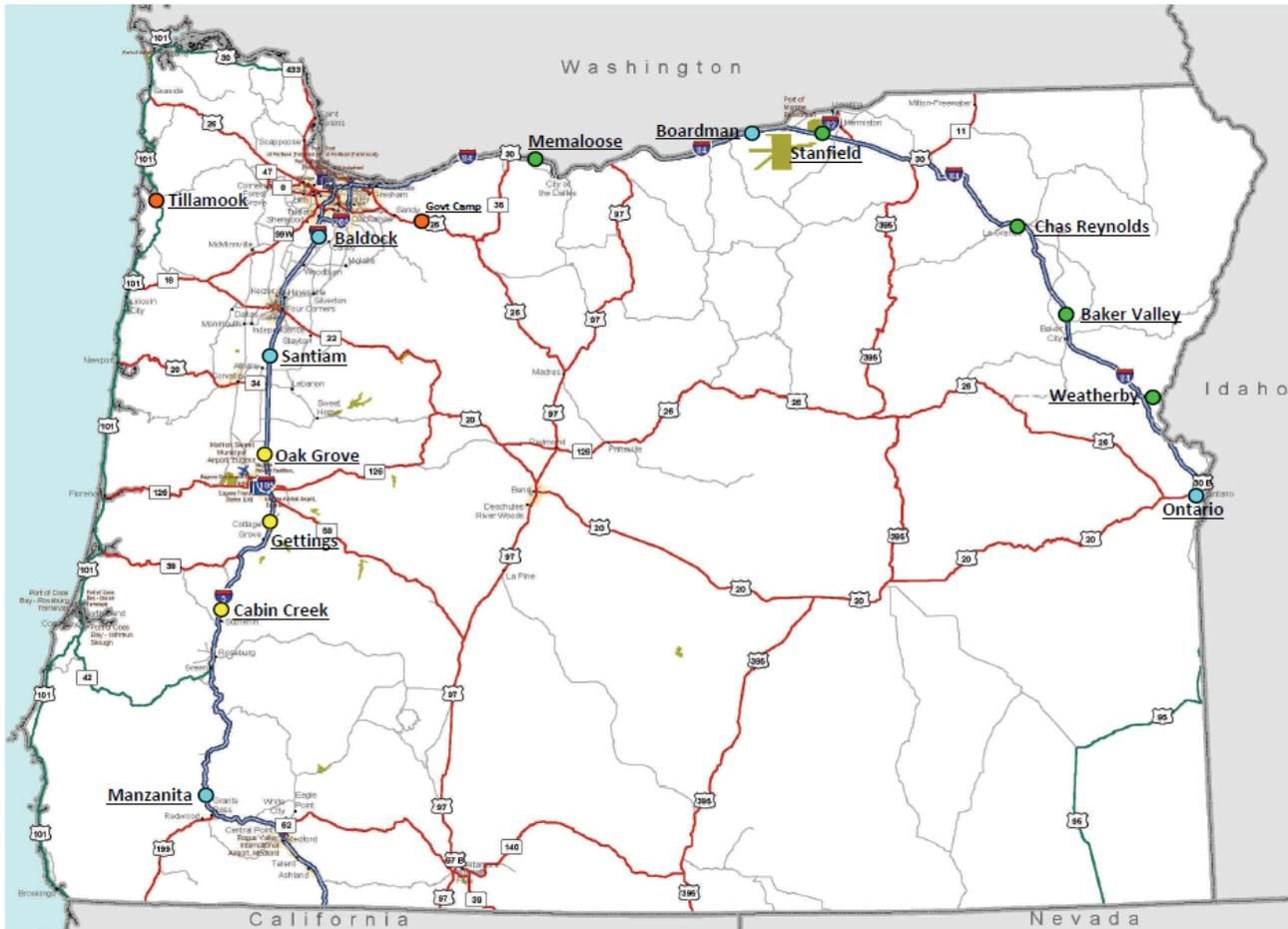
OTE is governed by a council of 11 members. Ten members are appointed by the Governor from the public at large, with at least one member from each congressional district. The eleventh member is the chair of the Oregon Transportation Commission (or a designee). Members have knowledge of, experience with, or interest in economic development, travel within Oregon, recreational opportunities in Oregon, Oregon history, or Oregon natural history.

Highway Rest Areas

The Federal Highway Administration requires rest areas along the interstate systems. Rest areas are intended to provide facilities for the comfort, convenience, relaxation, and information needs of motorists. Oregon's 77 rest areas on interstates and highways throughout the state are currently operated by OTE, ODOT, Oregon Parks and Recreation Department, and two other entities.

Beginning in 2009, the Legislature transferred rest areas from Oregon Department of Transportation to OTE along with state highway funds to pay for their operation and maintenance. OTE received \$4.96 million in calendar year 2013 to manage 20 rest areas. An additional six rest areas are expected to transfer to OTE by calendar year 2014. Once these rest areas are phased in, OTE will receive \$6.55 million of highway funds annually to maintain and operate 26 rest areas in 15 locations. Figure 1 shows the 15 rest area locations.

Figure 1: OTE Rest Areas



- Rest Areas 2010
- Rest Areas 2012
- Rest Areas 2013
- Rest Areas 2014

Restrictions on highway funds

The state pays for the maintenance, operation, improvement, and development of rest areas operated by OTE and ODOT with state highway funds, which are restricted in how they can be used. Specifically, the Oregon Constitution provides that all revenues from motor vehicle taxes and motor vehicle fuel taxes are to be used exclusively for the construction, reconstruction, improvement, repair, maintenance, operation, and use of public highways, roads, streets, and roadside rest areas in Oregon. In addition, highway funds may be used for the administrative costs to support a program or project on which highway funds permissibly may be spent. State officials must comply with the limitations and restrictions on the use of highway funds; misuse of the funds would constitute a breach of the fiduciary responsibility and misuse of public funds.

Sign Programs

OTE has four sign programs that generate revenue: 1) interstate signs, which are the blue logo signs; 2) off-interstate signs, which are smaller versions of the interstate logo signs; 3) tourist oriented directional signs; and 4) museum and historic site signs.

Interstate signs are regulated by the U.S. Department of Transportation, Federal Highway Administration. These signs must meet size, color, number, materials, content, and construction restrictions. OTE owns the signs and issues permits for logo space to interested businesses. Off-interstate signs are located just off the interstates and direct motorists to businesses advertised on the logo signs. Tourist oriented directional signs are found on major roads and highways; directing motorists to local attractions, such as a cultural or recreational site, or a unique or unusual commercial entity. Museum and historic site signs are placed along non-interstate and rural highways to help visitors find historical attractions.

Fee structures for the OTE's sign programs are approved by the council and are driven primarily by geography, economics, and traffic.

Prior Year Recommendations Follow-up

In 2012 we completed an audit at OTE focusing on three objectives: 1) determine whether state highway funds used by OTE were spent in accordance with state and federal rules; 2) gain an understanding of the operation model of OTE's and ODOT's rest area management; and 3) provide an overview of the structure, operation, and function of the OTE Council, and provide any appropriate recommendations to ensure transparency and accountability. Our report, *Oregon Travel Experience: Improve Accountability*, concluded that we did not find any improprieties at OTE, but we noted indications of risk in the organization and its procedures. We recommended better reporting and transparency, and additional policies to ensure the appropriate and prudent use of public funds. We also recommended legislative consideration for a biennial financial review or reconsideration of the semi-independent status of OTE.

Before the end of our audit in 2012, OTE experienced changes in leadership. Pursuant to the 2012 legislation, the Governor appointed six new members to the council. In addition, the council hired a new CEO in December 2012.

Audit Results

Expenditure of Highway Funds in Compliance with Laws

We audited the state highway funds at OTE in compliance with legislation passed during the 2012 Session. Our objective for the audit was to determine if state highway funds were spent in accordance with state and federal rules.

With the transfer of rest area operations and highway funds to OTE comes the responsibility for spending in accordance with the purposes defined for those funds. Expenditures can only be used for the construction, reconstruction, improvement, repair, maintenance, operation, and use of public highways, roads, streets, and roadside rest areas in Oregon. Other restrictions may apply because the funds are state funds.

We did not find any improprieties at OTE and concluded the highway funds were used for the purposes intended. In addition, we reviewed OTE's accounting records to examine the purpose of sign program expenditures and did not find any items that warranted further review.

Progress Made in Implementing Recommendations

Since the release of our report in September 2012, the council and OTE have made progress in implementing the recommendations. As shown in figure 2, the council and OTE have addressed or are in the process of addressing all of the recommendations we made. We recognize that some of our recommendations call for ongoing actions from the council and OTE; however, we believe sufficient progress has been made so we can affirm three of the four recommendations are fully implemented.

Most notably, the council and OTE management have shown a commitment to transparency and accountability. OTE management submitted Senate Bill 276 to the 2013 Legislative Session, and it was signed into law in June 2013. This legislation requires an annual financial review of OTE's entire operations. Other noteworthy actions include changes to OTE's employee handbook to conform to state practices, and to align OTE's policies and procedures more closely to those of the state. For example, OTE eliminated employee pay incentives and began using the state's recruitment process for new hires. In addition, the council and the CEO redefined their respective roles and responsibilities. Furthermore, the CEO has fostered open communication through a biweekly email update to all OTE employees and council members.

In addition to the above noted actions, OTE has begun collecting data from rest areas to develop performance measurements to better assess the effectiveness of operations. More time is needed, however, for OTE to collect sufficient data. OTE management reported it is researching options for performance measurement best practices and plans to finalize its current metrics later in 2013.

Figure 2. Audit Recommendations to Oregon Travel Experience

Audit Recommendations	Status of Recommendations	Additional Comments
Implement policies and procedures to ensure the appropriate and prudent use of state highway funds as well as OTE monies.	Fully Implemented	<p>As described previously in this report, we noted the purpose of sign program transactions in OTE’s accounting records; nothing came to our attention that we believed warranted further review.</p> <p>We reviewed OTE’s updated employee handbook that became effective January 2013. It appeared to conform directly to state policies.</p> <p>In addition, we observed state highway funds had been reimbursed for the questioned transactions from the previous audit. We also noted that OTE has eliminated employee pay incentives and is now using the state’s recruitment process for new hires. OTE has realigned some of its operations by assigning one supervisor for two rest areas in some regions, reducing staffing at one rest area, and eliminating the sign program’s sales department to capture further cost savings.</p> <p>Furthermore, OTE management reported the following actions:</p> <ul style="list-style-type: none"> ▪ OTE is in the process of adopting state payroll policies and position classifications; and ▪ OTE has centralized its purchasing of rest area supplies to capitalize on established state price agreements.
Ensure that OTE management and council members operate in a transparent and accountable manner, and make critical decisions public.	Fully Implemented	<p>Interviews we conducted with the CEO hired in December 2012 and council members appointed in July 2012 revealed a commitment to transparency and accountability. We reviewed documentation showing that the council and the CEO redefined their respective roles and responsibilities. Furthermore, the CEO has fostered regular communications through biweekly agency email updates to all employees and the entire council.</p> <p>In addition, management reported that the council completed a review and update of its operating procedures, culminating in the clarification of its roles and responsibilities. The revised operating procedures were passed unanimously by the full council during its October 10, 2012 quarterly meeting.</p>
Complete the development and regular collection of measures indicating the condition of the rest areas.	In Process	<p>We reviewed documentation maintained by OTE management of its data collection efforts at all rest areas. We determined that quantitative and qualitative measurements are being collected by management; however, more time is needed to obtain sufficient data to fully develop performance metrics.</p> <p>Additionally, OTE management reported it is researching options for performance measurement best practices and plans to enhance and finalize its current metrics later in 2013.</p>
We recommended legislative consideration, for consistency in accountability and due to OTE’s increased budget comprised of restricted-use highway funds, that a biennial financial review be required or the semi-independent status of OTE be re-evaluated.	Fully Implemented	<p>OTE management submitted Senate Bill 276 to the 2013 Legislative Session, and it was signed into law on June 26, 2013. This legislation requires an annual financial review of OTE’s entire operations.</p>

Objectives, Scope and Methodology

The purpose of this audit was to comply with requirements of Senate Bill 1591. Specific audit objectives included: 1) determine whether state highway funds used by OTE were spent in accordance with state and federal rules; and 2) conclude on the status of actions taken by the council and OTE management to address previous year audit recommendations.

To achieve our objectives, we interviewed management and staff at OTE, as well as OTE council members. We reviewed applicable Oregon Revised Statutes, articles of the Oregon Constitution, federal rules, Department of Justice opinions, and enrolled legislation. We also reviewed OTE council's meeting minutes and bylaws, OTE's policies, and accounting and operational records. Our review of internal controls was limited to the objective of determining whether state highway funds used by OTE were spent in accordance with state and federal rules.

We examined expenditures of state highway funds by reviewing 45 transactions totaling approximately \$720,000 of the \$4.5 million expended by OTE from March 2012 through February 2013. We used random and judgmental sampling methods to select transactions for review. Our review was limited to the use of state highway funds as required by Senate Bill 1591. However, we reviewed the purpose of sign program expenditures as described in OTE's accounting records to identify any items we believed warranted further attention.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



August 7, 2013

V. Dale Bond, CPA, CISA, CFE
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Sent via email: v.dale.bond@state.or.us

Ms. Bond:

The Oregon Travel Experience concurs with the Secretary of State Audit Report Oregon Travel Experience: Highway Funds Spent Appropriately and Progress Made on Prior Recommendations without exception.

In addition, we thank the Audit Division team for their diligence. Their efforts have materially influenced our improvements in transparency and accountability.

Sincerely,

A handwritten signature in blue ink that reads "Kyle K. Walker".

Kyle K. Walker, CEO

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About the Secretary of State Audits Division

The Oregon Constitution provides that the Secretary of State shall be, by virtue of her 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.

Audit Team

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This report, a public record, is intended to promote the best possible management of public resources. Copies may be obtained from:

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The courtesies and cooperation extended by officials and employees of the Oregon Travel Experience during the course of this audit were commendable and sincerely appreciated.