



Auditing for a Better Oregon

February 13, 2006

Matthew Garrett, Director
Oregon Department of Transportation
355 Capitol St. NE, Rm. 135
Salem, Oregon 97301-3871

Dear Mr. Garrett:

The statewide single audit that included selected financial accounts and federal awards at the Oregon Department of Transportation (department) for the year ended June 30, 2005, has been completed.

This statewide single audit work is not a comprehensive audit of your agency. Instead, this audit permits us to give an opinion on the statewide financial statements contained in the State of Oregon's Comprehensive Annual Financial Report and to report on internal control and the state's compliance with laws and regulations. Regular audits of the department will continue on a periodic basis.

The following department accounts and transactions were audited to determine their fair presentation in accordance with generally accepted accounting principles in relation to the statewide financial statements.

<u>SFMA Account</u>	<u>Description</u>	<u>Audit Amount</u>
<u>Special Revenue Fund</u>		
<u>Public Transportation Fund (1111)</u>		
0065	Unreconciled Deposit	\$ 54,501,446
0070	Cash on Deposit with Treasurer	272,296,832
0122	Motor Fuels Tax Revenue	408,179,799
0123	Weight Mile Tax Revenue	252,453,050
0126	Vehicle Registration Tax Revenue	204,786,683
0300	Federal Revenue	378,691,317
1215	Accounts Payable	104,944,686
1401	Transfers Out to Other Funds	894,276,487
1404	Transfer to Cities	117,585,956
1405	Transfer to Counties	166,762,359
1503	Revenue Bonds	324,702,475
1868	Transfers Out to Parks and Recreation	23,311,111
3111	Regular Employees	177,037,485
4975	Agency Related Program Services	529,357,346
6300	Distribution to Counties	256,915,613

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SFMA Account	Description	Audit Amount
Government-Wide Reporting Fund (8500)		
0815	Equipment and Machinery	\$ 211,481,575
0840	State Highways	10,440,990,530
0842	Tunnels and Bridges	2,673,259,504
0850	Land	1,474,743,415
0852	Buildings and Building Improvements	130,864,056
0856	Land Improvements	50,309,821
0861	Construction in Progress	1,097,701,962
0880	Accumulated Depreciation – State Highways	6,417,124,987
0881	Accumulated Depreciation – Tunnels and Bridges	964,780,064
1276	Bonds Payable – Current	23,043,473
1505	Proceeds from Refunding Bond/COP Debt	426,512,476
1714	Bonds Payable – Noncurrent	571,294,384
7476	Depreciation Expense	597,634,267

We determined whether the department substantially complied with the federal requirements relevant to the following federal program.

CFDA Number	Program Name	Audit Amount
20.205	Highway Planning and Construction	\$356,721,788

Based on our audit, we identified one reportable condition and one other condition needing corrective action. Our findings and recommendations are presented in the enclosed Audit Findings and Recommendations Summary accompanying this letter.

The reportable condition, along with your response, will be included in our Statewide Single Audit Report for the year ended June 30, 2005. Including your response with responses from other state agencies satisfies the federal requirement that management prepare a Corrective Action Plan (CAP) covering all reported audit findings. Satisfying the federal requirement in this manner, however, can only be accomplished if the response to the reportable finding includes the information specified by the federal requirement, and only if the response is received in time to be included in the audit report. The following information is required for the response.

1. Your agreement or disagreement with the finding. If you do not agree with the audit finding or believe corrective action is not required, include in your response an explanation and specific reasons for your position.
2. The corrective action planned.
3. The anticipated completion date.
4. The name(s) of the contact person(s) responsible for corrective action.

The other condition is an issue of lesser significance that we wanted to communicate to agency management. This condition does not require a Corrective Action Plan. We will follow up on the department's progress in addressing this issue during the next fiscal year audit.

Matthew Garrett, Director
Oregon Department of Transportation
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For the reportable condition, please respond by February 17, 2006.

Should you have any questions, please contact Raul Valdivia or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Kelly L. Olson, CPA
Audit Manager

KLO:bk

cc: Mike Marsh, Deputy Director, Central Services Division
Dennis Strachota, Chief Financial Officer
Marlene Hartinger, Chief Internal Auditor
Lindsay Ball, Director, Department of Administrative Services

**Audit Findings and Recommendations Summary
Oregon Department of Transportation Statewide Audit
State Fiscal Year 2005**

REPORTABLE CONDITION

Federal Highway Planning and Construction Program, CFDA 20.205

Subrecipient Monitoring Requirements

Inadequate Documentation of Subrecipient Monitoring

The Oregon Department of Transportation (department) should document and make available the monitoring activities it performs of its subrecipients who receive funds under the Federal Highway Planning and Construction Program. For the year reviewed, the department was responsible for monitoring 53 subrecipients who received \$12,928,420 in federal monies for this program. Federal guidance for this program states that monitoring should be accomplished through reporting, site visits, regular contact, or other means.

Department staff was not able to provide documentation of their monitoring activities for two of the 20 subrecipients we reviewed. The department did not provide documentation for Jackson County. The department provided the project agreement for the City of Condon, but did not provide monitoring documentation. As a result, we were not able to verify the monitoring activities for these two subrecipients. By not providing documentation that it is performing its subrecipient monitoring, the department is not able to provide assurance that the subrecipients are using the federal monies for authorized purposes.

We recommend the department maintain sufficient documentation of its subrecipient monitoring activities for the Federal Highway Planning and Construction Program. The documentation should be complete and accessible to department management and auditors.

OTHER CONDITION

Federal Award Information

At the time of the award for the Federal Highway Planning and Construction Program, the department did not make the subrecipients aware of all required award information. Specifically, the CFDA title and number were not identified to the subrecipients on project agreements made between them and the department. Pass-through entities are responsible for providing the subrecipient with the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and the applicable compliance requirements through award documents and agreements. By not providing sufficient information, some subrecipients incorrectly reported amounts on their Schedule of Expenditures of Federal Awards. The department's internal audit staff is addressing this issue.

We recommend the department provide the CFDA title and number within each project agreement made with subrecipients.