

Office of the Secretary of State

Bill Bradbury
Secretary of State

Jean Straight
Deputy Secretary of State



Audits Division

Charles A. Hibner, CPA
Director

255 Capitol Street NE, Suite 500
Salem, OR 97310

(503) 986-2255

fax (503) 378-6767

February 15, 2008

Matthew Garrett, Director
Oregon Department of Transportation
355 Capitol Street NE, Room 135
Salem, Oregon 97301-3871

Dear Mr. Garrett:

We have completed the statewide single audit that included selected financial accounts at Oregon Department of Transportation (department) for the year ended June 30, 2007.

This audit work was not a comprehensive audit of the department. Instead, the audit work performed allowed us, in part, to achieve the following objectives: (1) express an opinion on whether the financial statements contained in the State of Oregon's Comprehensive Annual Financial Report are fairly presented, in all material respects, in conformity with generally accepted accounting principles; (2) determine whether the state's internal controls provided reasonable assurance of proper accounting, financial reporting, and legal compliance of transactions; and (3) determine whether the state has complied with applicable legal requirements that may have a direct and material effect on the state's financial statements.

In planning and performing our audit of the selected financial accounts at the department as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the department's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements of the State of Oregon, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control. Accordingly, we do not express an opinion on the effectiveness of the department's internal control.

We audited the following accounts and transactions at the department 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>Government-Wide Reporting Fund (8500)</u> | | |
| 0815 | Equipment & Machinery | \$ 225,239,032 |
| 0840 | State Highways | 10,123,198,266 |
| 0842 | Tunnels and Bridges | 2,656,663,869 |
| 0850 | Land | 1,515,291,500 |
| <u>SFMA Account</u> | <u>Description</u> | <u>Audit Amount</u> |
| 0852 | Buildings & Building Improvements | 137,533,671 |
| 0856 | Land Improvements | 52,033,778 |
| 0861 | Construction in Progress | 2,108,914,106 |
| 0880 | Accumulated Depreciation – State Highways | 7,175,972,099 |
| 0881 | Accumulated Depreciation – Tunnels and Bridges | 1,027,085,770 |
| 1276 | Bonds Payable – Current | 45,006,837 |
| 1714 | Bonds Payable – Noncurrent | 1,549,494,244 |
| 3018 | Invested in Capital Assets | 8,721,737,642 |
| 7476 | Depreciation Expense | 588,399,309 |
| <u>Special Revenue Fund–</u> | | |
| <u>Public Transportation Fund (1111)</u> | | |
| 0065 | Unreconciled Deposit | \$ 39,043,010 |
| 0070 | Cash on Deposit with Treasurer | 746,108,899 |
| 0122 | Motor Fuels Tax | 416,297,031 |
| 0123 | Weight Mile Tax | 256,902,830 |
| 0126 | Vehicle Registration Taxes | 205,204,602 |
| 0240 | Investments – Designated | 102,179,000 |
| 0245 | Investment Valuation Acct – Designated | 2,280,067 |
| 0300 | Federal Revenue | 387,645,416 |
| 1215 | Accounts Payable | 120,378,123 |
| 1401 | Transfer Out to Other Fund | 1,039,611,686 |
| 1405 | Transfer to Counties | 168,141,328 |
| 1503 | Revenue Bonds | 655,120,000 |
| 1868 | Transfer Out to Parks and Recreation | 25,069,701 |
| 3111 | Regular Employees | 190,278,726 |
| 3210 | Public Employees Retirement Contribution | 27,996,495 |
| 3221 | Social Security Taxes | 16,088,564 |
| 3263 | Medical, Dental, Life Insurance | 48,209,423 |
| 3264 | Medical, Dental, Life Insurance Subsidy | 538,024 |
| 4500 | Professional Services Non-IT | 155,135,162 |
| 4975 | Agency Related Program Services | 605,314,660 |

Our consideration of internal control was for the limited purpose described in the preceding paragraphs and would not necessarily identify all deficiencies in internal control. As discussed

below, we identified a deficiency in internal control that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control:

For fiscal year 2006, we reported a significant deficiency to the department in a letter dated February 6, 2007, that related to the department's infrastructure accounting. This finding was included in the Statewide Single Audit Report for the fiscal year ended June 30, 2006; see audit report number 2007-06, finding number 06-7. During fiscal year 2007, the department continued to make progress in addressing this finding. This finding will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2007, which will be issued in March 2008, with a status of partial corrective action taken.

In addition to the significant deficiency identified above, we identified another matter that warrants management's attention.

Lack of Documentation

The Department of Transportation (department) was assigned responsibility for completing the review of single audit reports in accordance with OMB Circular A-133 for 10 subrecipients who received federal funds from the State of Oregon. The Oregon Accounting Manual (OAM) includes specific responsibilities and requirements for the review of subrecipient audit reports to ensure compliance with applicable OMB Circular A-133 requirements. These responsibilities include obtaining the subrecipient's audited financial statements and other pertinent documentation within the earlier of thirty days after receipt of the auditor's report or nine months after the end of the audit period. The department also has the responsibility of reviewing the audit report within 90 days of either the receipt of the audit report or the department's notification of assignment as audit agency for the subrecipient.

We found that three of the five subrecipients in our sample did not have a documented receipt date for the required reports and documents. Without a documented receipt date, the department can not ensure they are receiving the required reports or reviewing them within the timelines required by the OAM and OMB Circular A-133.

We recommend department management ensure adequate documentation is maintained to determine if subrecipient information is received and reviewed within the timelines required by the OAM and OMB Circular A-133.

Matthew Garrett, Director
Oregon Department of Transportation
Page 4

This matter does not require a written response. We will follow up on the department's progress in addressing this matter during the next fiscal year audit.

This communication is intended solely for the information and use of management, and others within the organization, and is not intended to be and should not be used by anyone other than the specified parties.

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

Sincerely,
OREGON AUDITS DIVISION

Kelly L. Olson, CPA
Audit Manager

KLO:brk

cc: Les Brodie, Chief Financial Officer
Marlene Hartinger, Chief Auditor
Kris Kautz, Interim Director, Department of Administrative Services