

Office of the Secretary of State

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Audits Division

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January 26, 2012

Matthew Garrett, Director
Oregon Department of Transportation
1158 Chemeketa Street NE
Salem, Oregon 97301

Dear Mr. Garrett:

We have completed audit work of selected financial accounts at the Oregon Department of Transportation (department) for the year ended June 30, 2011.

This audit work was not a comprehensive audit of the department. We performed this audit work as part of our annual statewide financial audit. The objective of the statewide audit was to express an opinion on whether the financial statements contained in the State of Oregon's Comprehensive Annual Financial Report were fairly presented, in all material respects, in conformity with generally accepted accounting principles.

In planning and performing our audit of the selected financial accounts at the department as of and for the year ended June 30, 2011, 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 at the department and determined 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>GAAP Fund 1111 – Public Transportation Fund</u>		
0065	Unreconciled Deposit	\$ 42,689,596
0070	Cash on Deposit with Treasurer	545,670,340
0240	Investments – Designated	153,104,000
0245	Investment Valuation Acct – Designated	1,326,326
0350	Securities Lending Collateral	17,886,635
0542	Accounts Receivable – Federal Unbilled	62,897,243

1215	Accounts Payable	123,976,273
1600	Obligations Under Securities Lending	17,886,635
0122	Motor Fuels Tax	449,290,147
0123	Weight-Mile Tax	239,967,358
0126	Vehicle Registration Tax	274,165,820
0300	Federal Revenue	703,538,990
1401	Transfer Out to Other Funds	211,737,816
1404	Transfer to Cities	133,729,003
1405	Transfer to Counties	194,663,136
1503	Revenue Bonds	96,369,674
3111	Regular Employees	222,252,185
3210	Public Employees Retirement Contribution	20,696,873
3212	Pension Bond Assessment	13,900,721
3221	Social Security Taxes	18,725,357
3263	Medical, Dental, Life Insurance	66,217,399
4500	Professional Services Non-IT	154,619,773
4975	Agency Program Related Services	560,471,227
6700	Distribution to Other Governments	246,163,108

GAAP Fund 2001 – Revenue Bond Fund

1301	Transfer In From Other Funds	\$ 176,225,520
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GAAP Fund 8500 – Government Wide Reporting Fund

0815	Equipment and Machinery	\$ 287,136,208
0840	State Highways	11,991,886,354
0842	Tunnels and Bridges	3,675,394,673
0850	Land	1,580,944,318
0852	Buildings and Building Improvements	156,608,515
0861	Construction In Progress	1,219,044,694
0869	Accumulated Depreciation – Equipment and Machinery	155,235,100
0875	Accumulated Depreciation – Buildings & Bldg Improvements	83,575,034
0880	Accumulated Depreciation – State Highways	8,138,802,128
0881	Accumulated Depreciation – Tunnels and Bridges	1,089,485,450
1276	Bonds Payable – Current	58,392,763
1714	Bonds Payable – Noncurrent	2,807,011,644
3111	Regular Employees	(48,656,173)
4975	Agency Program Related Supplies	(494,096,566)
7476	Depreciation Expense	186,321,595

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and

corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. During our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses as described above. However, we identified the following other matter that is an opportunity to strengthen internal controls, but is not considered to be a significant deficiency or a material weakness. This other matter does not require a written response from management.

GASB 54 Reporting

Beginning in fiscal year 2011, state agencies are required to report financial data in accordance with Governmental Accounting Standards Board (GASB) Statement 54. Among other requirements, this statement requires that fund balances (i.e. the excess of assets over liabilities) be reported showing any restrictions of the fund balances, such as restricted by the Oregon Constitution or restricted by enabling legislation. During our audit, we noted that the nature of the restrictions for two of the nine funds we sampled was incorrectly identified. Fund balances in the Highway Fund initially were reported entirely as Restricted by Enabling Legislation. The actual resources in the Highway Fund come from multiple sources that have different restrictions. For example, the Highway Fund contains bond issue proceeds (Restricted for Debt Covenants) and Motor Fuels Taxes (Restricted by the Oregon Constitution) as well as other resources. When determining the proper restriction for the resources, department staff did not consider all of the different sources. As a result, the restrictions on a majority of the resources in the Highway Fund were misclassified.

Additionally, resources originally collected in the Highway Fund, but put aside for debt service for OTIA III Revenue bonds, were listed as Restricted by Debt Covenants. However, because the resources were originally received in the Highway Fund, they should have maintained the classification as Restricted by the Oregon Constitution. The total misstatement of the restricted fund balance reported in the two funds was approximately \$630 million. When we brought these classification issues to department management's attention, management took prompt action to reclassify the fund balances.

We recommend management review the classifications assigned to each fund to ensure that the appropriate restrictions have been identified. Further, we recommend that when multiple restrictions exist in the same fund, management appropriately identify the amounts to be restricted for each category.

Prior Year Findings

In the prior fiscal year, we reported a significant deficiency relating to Internal Controls over Financial Reporting and a material weakness in Infrastructure Reporting in a letter dated February 16, 2011. These findings can also be found in the Statewide Single Audit Report for the fiscal year ended June 30, 2010; see Secretary of State audit report number 2011-06, finding numbers 10-07 and 10-06. During fiscal year 2009, we reported a material weakness relating to Infrastructure Reporting in a letter dated March 15, 2010. This finding can also be found in the

Matthew Garrett, Director
Oregon Department of Transportation
Page 4

Statewide Single Audit Report for the fiscal year ended June 30, 2009; see Secretary of State audit report number 2010-19, finding number 09-05. During fiscal year 2011, the department made appropriate corrective actions to strengthen and improve the internal control weaknesses. Each finding will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2011, with a status of corrective action taken.

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

We appreciate your staff's assistance and cooperation during this audit. Should you have any questions, please contact Geoff Hill or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

V. Dale Bond, CPA, CISA, CFE
Audit Manager

VDB:GMH:nmj

cc: Clyde Saiki, ODOT Central Services Deputy Director
Jerri Bohard, ODOT Operations Deputy Director
Paul Mather, ODOT Highway Division Administrator
Gregg Dal Ponte, ODOT Motor Carrier Transportation Administrator
Tom McClellan, ODOT Driver and Motor Vehicle Services Administrator
Les Brodie, ODOT Chief Financial Officer
Deb Tennant, ODOT Deputy Chief Financial Officer
Clay Flowers, ODOT Financial Policy and Compliance Manager
Marlene Hartinger, ODOT Internal Audit Chief
Oregon Transportation Commission
Michael J. Jordan, Director, Department of Administrative Services