

Office of the Secretary of State

Kate Brown
Secretary of State

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Audits Division

Gary Blackmer
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December 10, 2012

Matthew Garrett, Director
Oregon Department of Transportation
355 Capitol Street NE, MS 11
Salem, Oregon 97301-3871

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, 2012.

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 is to 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.

In planning and performing our audit of the selected financial accounts at the department as of and for the year ended June 30, 2012, 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	\$ 42,916,898
0070	Cash on Deposit with Treasurer	569,251,025
0240	Investments – Designated	119,185,000
0245	Investment Valuation Account – Designated	2,590,064
0350	Securities Lending Collateral	15,512,918
1215	Accounts Payable	72,181,823

1600	Obligations Under Securities Lending	15,512,918
1512	Due to Other Governments	73,468,363
0122	Motor Fuels Tax	490,991,236
0123	Weight-Mile Tax	259,983,935
0126	Vehicle Registration Tax	281,357,938
0300	Federal Revenue	567,589,849
3111	Regular Employees	217,124,095
3210	Public Employees Retirement Contribution	35,039,821
3212	Pension Bond Assessment	14,397,710
3221	Social Security Taxes	18,248,474
3263	Medical, Dental, Life Insurance	65,078,868
4500	Professional Services – Non IT	114,142,066
4975	Agency Program Related Services	461,875,295
4976	Agency Program Related Supplies	69,190,387
1404	Transfer to Cities	146,031,720
1405	Transfer to Counties	213,176,356
1401	Transfers Out to Other Funds	220,148,963
1301	Transfers In from Other Funds	88,102,174

GAAP Fund 2001 – Revenue Bond Fund

1301	Transfers In from Other Fund	173,670,026
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GAAP Fund 8500 – Government Wide Reporting Fund

0815	Equipment and Machinery	300,518,684
0850	Land	1,571,820,324
0852	Buildings and Building Improvements	162,316,825
0869	Accum Depreciation – Equipment and Machinery	159,602,207
0875	Accum Depreciation – Buildings and Building Improvements	88,582,909
0840	State Highways	16,015,483,431
0861	Construction in Progress	1,065,203,343
0880	Accum Depreciation – State Highways	8,951,834,058
3111	Regular Employees	(52,844,741)
4975	Agency Program Related Services	(346,275,133)
7476	Depreciation Expense	214,862,558
1276	Bonds Payable – Current	80,037,897
1714	Bonds Payable – Noncurrent	2,789,119,758

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.

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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we

identified the following other matter that is an opportunity to strengthen internal controls. This other matter does not require a written response from management.

Other Matter

Interfund Reimbursement

Beginning in fiscal year 2011, the department performed extensive reconstruction and renovation of its headquarters building. The reconstruction was financed through the issuance of general obligation bonds by the State of Oregon. Prior to the bond proceeds becoming available in fiscal year 2012, the department used money from the Highway Fund to pay for the construction costs. Although the department reimbursed the Highway Fund, it incorrectly recorded the reimbursement as a transfer instead of removing the construction costs from the Highway Fund. When we brought this matter to the attention of the department's accounting management, the related accounts were properly adjusted.

We recommend department management review current policies and procedures to ensure that future interfund reimbursements are properly accounted for in accordance with generally accepted accounting principles.

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, CFE, CISA
Audit Manager

VDB:GMH:nmj

cc: Lisa Martinez, Interim Deputy Director
Jerri Bohard, Transportation Development Division Administrator
Paul Mather, Highway Division Administrator
Gregg Dal Ponte, Motor Carrier Division Administrator
Tom McClellan, Driver and Motor Vehicle Services Administrator
Les Brodie, Chief Financial Officer
Marlene Hartinger, Chief Internal Auditor
Clay Flowers, Financial Policy and Compliance Manager
Joe Bonawitz, Financial Systems Manager
Tracy Wroblewski, Payroll, Payments, Admin and Imaging Manager
Oregon Transportation Commission
Michael J. Jordan, Director, Department of Administrative Services
Clyde Saiki, DAS Interim Chief Human Resource Officer