

Office of the Secretary of State

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Audits Division

Gary Blackmer
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(503) 986-2255

December 28, 2015

Matthew Garrett, Director
Oregon Department of Transportation
355 Capitol St. NE, MS11
Salem, Oregon 97301

Dear Mr. Garrett:

We have completed audit work of selected financial accounts at your department for the year ended June 30, 2015. This audit work was not a comprehensive financial audit of the department, but was performed as part of our annual audit of the State of Oregon's financial statements. We audited accounts that we determined were material to the State of Oregon's financial statements.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements of the State of Oregon as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, we considered the department's internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances 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.

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, in internal control, 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 material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Other Issue

During the course of our audit, we became aware of the issue below that is considered an opportunity for strengthening internal controls. This issue does not require a written response from management.

Ensure Managerial Review and Approval Occurs for all Cost Allocations

The department frequently purchases goods and services that may be used for multiple programs or projects. For example, the department may purchase a truck that will be used for multiple construction projects over the life of the asset. As part of the cost accounting for the department's operations, employees make entries to the accounting system to allocate the overall cost of the truck to the various projects for which it is used. Department policy requires that these allocations to various cost centers be reviewed and approved by an appropriate level of management.

During our testing of federal revenues, we identified a number of cost allocation expenditures that did not include evidence of managerial review and approval. While the department's procedures and internal controls provide assurance that the initial cost to acquire an asset is appropriate, without evidence of managerial approval of subsequent allocations of costs, management has less assurance that the final disposition of those costs are appropriate. Managerial reviews of federal allocations are important to help ensure correct costs are being charged to federal grants.

We recommend department management ensure that proper review and approval of cost allocations occur.

Prior Year Finding

In the prior fiscal year, we reported a significant deficiency related to the department's cash handling procedures for fuel taxes in a letter dated January 21, 2015. This finding can also be found in the Statewide Single Audit Report for the fiscal year ended June 30, 2014; see Secretary of State audit report number 2015-05, finding number 2014-011. During fiscal year 2015, the department revised its mail opening and cash handling processes, requiring two individuals to be present when the mail is opened. The department also separated responsibilities for preparing deposits and recording receipts. This finding will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2015, with a status of corrective action taken.

The purpose of this letter is solely to describe the scope of our testing of internal control and the result of that testing, and not to provide an opinion on the effectiveness of the department's internal control. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control. Accordingly, this letter is not suitable for any other purpose.

Matthew Garrett, Director
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We appreciate your staff's assistance and cooperation during this audit. Should you have any questions, please contact Alan Bell, lead auditor, or Dale Bond, audit manager, at (503) 986-2255.

Sincerely,

Office of the Secretary of State, Audits Division

cc: Kurtis Danka, Interim Central Services Division Administrator
Tracy Wroblewski, Chief Financial Officer
Clay Flowers, Financial Policy and Compliance Manager
Joe Bonawitz, Revenue and Expenditure Reporting Manager
Jerri Bohard, Transportation Development Administrator
Gregg Dal Ponte, Motor Carrier Division Administrator
Tom McClellan, Driver and Motor Vehicle Services Administrator
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Marlene Hartinger, Internal Audit Chief
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George Naughton, Interim Director, Department of Administrative Services