

Office of the Secretary of State

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Audits Division

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December 20, 2016

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, 2016. 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 to be 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, 2016, 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 a 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. 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist

that have not been identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

Significant Deficiency

Employee Access to the State's Payroll System was not Timely Revoked

The Oregon Department of Transportation (department) authorizes certain employees access to the state's payroll system as part of their job responsibilities. The Department of Administrative Services grants the access to the system. We reviewed employees' access to the payroll system to determine whether it was appropriate for their current job duties, and whether their access had been revalidated in accordance with department policy. We identified two employees whose access to the payroll system should have been revoked more than a year prior to our review. Both employees' job responsibilities had changed so they no longer needed access to the payroll system. This oversight resulted from department employees implementing modifications to internal (TEAMS) reports that were used during the payroll system revalidation process, but not communicating these changes to the employee responsible for revalidating access. As a result, the employee was not aware of the changes to the two employees' status and, therefore, did not contact the Department of Administrative Services to have the employees' access revoked.

Sound internal control over information systems requires the access rights of all employees to be revoked upon termination of their employment, or revoked when the access is no longer required for their assigned job duties. Failure to revoke system access in a timely manner may result in unauthorized changes to the state's payroll system.

We recommend department management review its policies and procedures for revoking access to the payroll system and ensure staff responsibilities are clearly defined.

The above significant deficiency, along with your response to the finding, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2016. Please prepare a response to the finding and include the following information as part of your corrective action plan:

- 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.

Please respond by January 5, 2017.

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
Oregon Department of Transportation
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We appreciate your staff's assistance and cooperation during this audit. Should you have any questions, please contact Alan Bell or Dale Bond at (503) 986-2255.

Sincerely,

Office of the Secretary of State, Audits Division

cc: Kurtis Danka, Interim Deputy Director
Tracy Wroblewski, Chief Financial Officer
Clay Flowers, Financial Policy and Compliance Manager
Joe Bonawitz, Revenue and Expenditure Reporting Manager
Jerri Bohard, Transportation Development Administrator
Troy Costales, Interim Motor Carrier Division Administrator
Tom McClellan, Department of Motor Vehicles Administrator
Paul Mather, Highway Division Administrator
Marlene Hartinger, Internal Audit Chief
Oregon Transportation Commission
Katy Coba, Director, Department of Administrative Services