

Management Letter 23-03

October 23, 2023

Marsha Hoskins, Interim Division Administrator

Public Transportation Division

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Salem, Oregon 97301

Dear Ms. Hoskins,

Per management request, we have completed a non-audit review of how the Public Transportation Division (PTD) monitors Statewide Transportation Improvement Funds (STIF). During our review, we analyzed information qualified entities (QEs)<sup>1</sup> submit to PTD, and PTD's processes for reviewing information, data availability, and the current reporting structure used for STIF funds. This memo summarizes our observations. The information in this memo is intended for use by PTD management and their staff. All other readers are encouraged to exercise caution when considering action based on this information.

## Background

The STIF Program was established in 2017<sup>2</sup> to provide a dedicated source of funding for improving, maintaining, and expanding public transportation for all users. STIF funds are allocated across four programs:

- 90% of funds for the STIF Formula Program
- 5% of funds for the STIF Discretionary Program
- 4% of funds for the STIF Intercommunity fund
- 1% to the Technical Resource Center

Formula funds are intended to expand and improve public transportation services and may also be used to support service maintenance and ongoing operations costs. ODOT disburses Formula funds based on population and taxes paid in a QE's geographic area. STIF Discretionary and Intercommunity funds are awarded to QEs through a competitive grant program. Discretionary funds can be used for a variety of projects but cannot go towards ongoing operations. Intercommunity funds support maintaining, expanding, and

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<sup>1</sup> Qualified Entities are mass transit districts, counties without either a mass transit district or transportation district, and federally-recognized tribes.

<sup>2</sup> The STIF Program was established through House Bill 2017, which was enacted in 2017.

improving public transportation services between two or more communities. There are currently 42 QEs, though not all will seek STIF funding.

QEs must submit a STIF Plan to PTD that lists each project that will receive Formula funds. STIF Plans must cover at least a biennium and address the needs of people residing in or traveling in or out of the QEs area of responsibility. STIF Plans are reviewed by the QE's governing body and PTD. Next, the Public Transportation Advisory Committee (PTAC) STIF Plan Subcommittee analyzes plans and provides the Oregon Transportation Commission (OTC) with their recommendation for or against approval. The OTC finalizes award decisions using criteria derived from statute and the Oregon Public Transportation Plan.

Once the STIF Plan is finalized QEs are required to submit quarterly reports on STIF Formula expenditures and project progress. These are called STIF Plan Reports (SPR) and are submitted in the Oregon Public Transit Information System (OPTIS). PTD uses OPTIS to monitor and manage grant funds. There are currently no quarterly reporting requirements for Discretionary and Intercommunity funds. Our review focused on STIF Formula funds, which we will refer to as STIF funds in the rest of the letter.

### **Compliance Issues Limit PTD Ability to Monitor Funds**

PTD did not ensure that QEs submit required audits and annual budgets. Many QEs have not submitted these required documents, which prevents PTD from using them to gauge how QEs store and account for STIF funds. Any QE who receives STIF funds is required to undergo an annual financial audit on the use of STIF moneys received. ODOT developed Agreed-Upon Procedures (AUP) that must be added to a QE's annual financial audit. In addition to the AUP, QEs must submit a full budget each fiscal year.

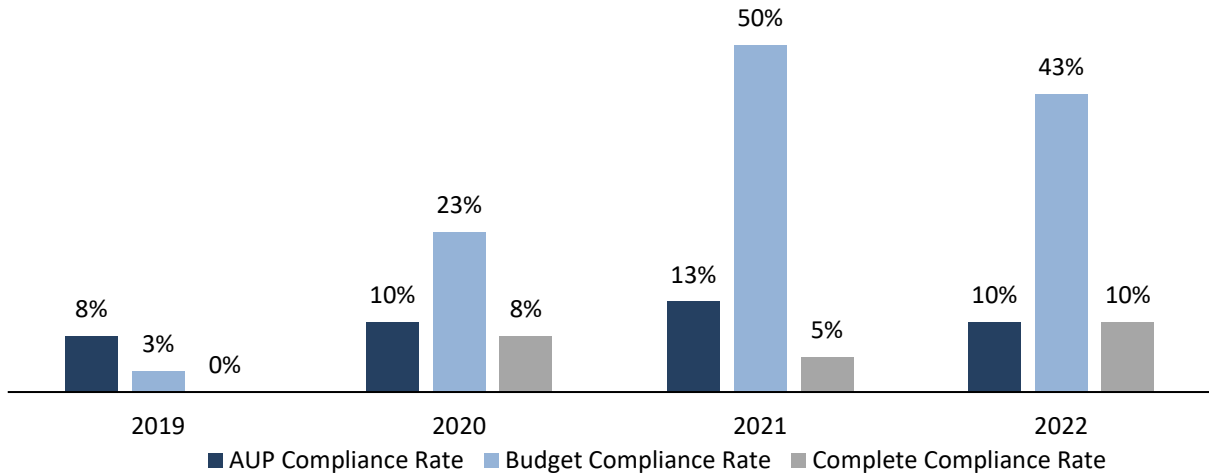
AUP procedures direct auditors to conduct a number of procedures, including the following: obtain a list of subrecipients and the funds they received, review information on their accounting system and whether it delineates STIF funds from other revenues, check the amount of interest accrued on STIF funds, and recalculate the amount of unspent STIF funds. Additionally, a sample of STIF expenditures should be reviewed to ensure they are supported by documentation.

PTD had not received the annual financial audit with completed AUP or an annual budget from most QEs. We analyzed how many QEs submitted the AUP, annual budget, or both from fiscal year 2019 to 2022. The chart below shows submittal rates during this period, with complete compliance meaning a QEs submitted both documents in the same year.<sup>3</sup> Not one QE submitted both items for all four years reviewed.

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<sup>3</sup> The compliance rates were calculated based on the 40 providers that submitted STIF plans during the FY19-FY21 biennium.

***Submittal Rates for AUP and Annual Budgets has been Significantly below 100%***



The lack of completed AUPs hinders PTD’s ability to ensure that QEs are using an accounting system that separates STIF funds, that they are calculating interest and carryforward funds correctly, and can provide documentation to support expenditures. Current PTD desk procedures outline a process to address AUP findings, but this cannot be completed without submitted AUPs.

**Current Review Practices Do Not Leverage All QE Reporting to Enhance Monitoring**

PTD does not utilize all QE reporting in monitoring STIF funds. ODOT Regional Transit Coordinators (RTC) use a checklist to guide the review of SPRs. However, the checklist does not direct RTC’s to ensure the amounts in the SPR are consistent with other STIF reporting. The checklist procedures are centered on whether the SPR is complete and whether there are projects or expenditures that are not tied to projects on the STIF plan. The checklist does not include verifying whether the data is accurate and consistent with other QE reporting.

The information QEs submit in the SPR and Agency Periodic Request (APR) can be compared against additional information PTD has to monitor STIF funds. The SPR reports include project status, project expenditures, total STIF Plan amount, and amount of STIF funds remaining. The quarterly APR includes similar information: total STIF Plan amount, amount of STIF funds paid to QEs, and amount of STIF funds in process.

Between these documents PTD has the data available to ensure that QEs and PTD have the same understanding of STIF Plan amount, amount paid to QEs, and remaining STIF funds. SPR and APR data can be used to ensure PTD, and QEs have the same understanding of STIF Plan amount and remaining available STIF funds. PTD can compare their disbursement data with the amount paid to QEs as reported in APRs.

## **The STIF Plan Amount Not Always Accurate or Included in Quarterly Reporting by QEs**

We looked at whether the STIF Plan maximum is consistently reported throughout OPTIS and quarterly reporting. The approved plan amount represents the maximum value of STIF funds QEs will receive to complete their STIF Plan. The number is reported in the STIF Plan document itself, as well as the SPR, APR, and the OPTIS system. During the FY19 to FY21 biennium, the approved maximum in the STIF Plan document was inconsistent with the amount in at least one of the 4<sup>th</sup> quarter SPR or APRs for 11 QEs. The differences were less than \$10 for nine of these QEs. For the remaining two, one had a difference of \$585,109 and the other did not have STIF funds included in the APR. We looked at every quarterly APR report for these two QEs. We found that both the \$585,109 difference and missing STIF information persisted throughout the biennium.

## **STIF Plan Changes Lacked Documented Support and Explanation**

We also looked at whether the OPTIS system used to manage STIF is in-line with the STIF Plan document stored on the STIF Formula fund website. For the FY21 to FY23 biennium the majority (93%) of QEs had the same STIF fund amounts in OPTIS and the STIF Plan or “planned amount” document.

PTD staff stated that plans kept on the STIF Formula fund website should match what OTC approved. There are rare instances where PTD revises STIF Plans after they are entered into OPTIS. RTCs provided two updated STIF Plans for QEs with discrepancies. One updated STIF Plan explained the discrepancy. The other included numbers closer to OPTIS but did not match. Both versions are newer than what is stored on the Formula fund website.

We found instances where the STIF funds listed in OPTIS did not match what the OTC approved, as well as cases where the carryforward funds reported to the OTC differed from the STIF Plan documents on the website. There were nine (22%) QEs that fell into one of these categories with one QE being in both. For two QEs the discrepancies were less than \$10. The table below shows all differences exceeding \$10 between the OTC approved amounts and OPTIS.

**Table 1: STIF Fund Differences between OTC Approved Amounts and OPTIS**

QE Number	Difference
1	\$ 267,109.00
2	\$ 46,027.00
3	\$ 45,996.00
4	\$ 200,000.00
5	\$ 19,829,462.00
6	\$ 109,400.00
7	\$ 500,000.00

The differences between carryforward funds in STIF Plans and what OTC approved were not as varied, but still show that OTC approved amounts can contrast with what providers include in their plans. The below shows all discrepancies.

**Table 2: Differences between Carryforward in STIF Plan Documents and OTC Approved Carryforward<sup>4</sup>**

QE Number	Difference
1	\$ 250,000.00
2	\$ 40,000.00
3	\$ 1,172.00
4	\$ 675.00
5	\$ 162,500.00
6	\$ 40,000.00
7	\$ 18,885.00
8	\$ 334,845.00
9	\$ 479.39

PTD staff stated that the goal is for OPTIS data to match what the OTC approved. As mentioned earlier, there are rare cases where STIF Plans are amended after being entered into OPTIS. Additionally, QEs are permitted to shift budget values. We were unable to determine whether these discrepancies were due to approved changes or shifting budget values. This is due to PTD staff turnover and lack of documentation.

#### **Gaps Identified in Desk Procedures for STIF Monitoring**

During our review PTD staff provided us with a copy of their current STIF Fund Coordinator Desk Manual and the RTC checklist. Enhancing and formalizing the procedures described in these documents could address our findings while also providing an opportunity to spot issues earlier.

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<sup>4</sup> Another QE had a \$.20 difference. This QE was not included in the table due to the size of the discrepancy.

We identified multiple gaps in the PTD desk procedures and the RTC checklist that would improve STIF monitoring. The following is a listing of the gaps identified:

- No active procedure that ensures all STIF funds are included and consistent among OPTIS, STIF Plan, APR and SPRs.
- No formalized process for approving and documenting STIF fund changes after a STIF Plan document has been created.
- No formal policy for where final STIF Plan documents should be housed.
- No formalized process for reconciling carryforward funds and unspent funds for QEs at the end of a biennium.

Closing these gaps would bolster PTD's monitoring efforts by ensuring there is a process in place to track any unsubmitted documents, address any discrepancies with quarterly reports early in the biennium, and by documenting review procedures and changes made to STIF fund amounts.

### **Suggested Actions**

PTD should:

1. Ensure QEs submit annual financial audits including the AUP and annual budgets.
2. Amend RTC checklist to include verification that STIF Plan information is consistent between OPTIS, the SPR, and APR at the beginning and end of the biennium. Any discrepancies should be addressed with the QE.
3. Ensure that STIF Formula fund website stores the most up-to-date versions of the STIF Plans.
4. Create a procedure for documenting any changes to STIF Plan after it has been approved by the OTC.
5. Update STIF desk procedures to address gaps identified in this letter for improved STIF Monitoring.

### **Review Steps**

To complete this review, we performed the following steps:

We reviewed the following documents:

- STIF Agreed Upon Audit Procedures
- RTC Checklist
- STIF Substantially Compliant Considerations
- STIF Plan Rejection Considerations

We analyzed the following data:

- STIF Plans and OPTIS entries from the FY21 to FY23 biennium
- Carryforward funds as reported in SPRs, APRs, PTD data, OTC materials and the PTAC packet from the FY19 to FY21 biennium
- Disbursement data from PTD
- STIF Plan totals from 40 QEs during the FY19 to FY21 biennium
- 4<sup>th</sup> quarter SPR and APR forms from 40 QEs from the FY19 to FY21 biennium
- Reported carryforward funds from the FY19 to FY21 biennium

Our work was not performed in accordance with generally accepted government auditing standards; however this letter went through our internal quality control process. We believe that the evidence obtained provides a reasonable basis for our observations.

We appreciated the cooperation of the Public Transportation Division. This review was conducted by Ben Haley, Senior Internal Auditor. Please let us know if you have any questions.

Sincerely,



Marlene V. Hartinger, MBA, CPA, CIA  
Chief Auditor

cc:  
Executive Strategy Team Members



# Oregon

Tina Kotek, Governor

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TO: Marlene Hartinger, Chief Auditor

FROM: Marsha Hoskins, Interim Division Administrator

RE: Public Transportation Division (PTD) Management Response to ODOT Internal Audits' "Non-Audit" of PTD Oversight for Statewide Transportation Improvement Funds (STIF)

DATE: October 19, 2023

As our Division rebuilds our staff and processes after more than a year of continuing attrition, we appreciate the assistance and insight provided by your staff in their review of how the Public Transportation Division (PTD) monitors Statewide Transportation Improvement Funds (STIF).

Your suggested actions to improve our monitoring of STIF recipients are logical and, once our vacant positions are filled, reasonable and achievable. The suggested actions align with improvements we identified through the first two STIF cycles and can be implemented throughout the current 2023-25 biennial cycle to be in place for the 2025-27 cycle.

ODOT Audits' Recommended Actions from the Non-Audit STIF Review:

1. Ensure Qualified Entities (QEs) submit annual financial audits including the Agreed Upon Procedures (AUP) and annual budgets.

*The STIF Fund Coordinator and Support Analyst positions, once filled, can check and document receipt and accuracy of these materials from each QE. Procedures to do so will be in place by the 25-27 biennial STIF cycle. [OAR 732-040-0045](#) describes circumstances under which the Agency can withhold STIF funds from a recipient. Policy and guidance for when and how this will occur should be created and communicated in advance of the next biennium.*

2. Amend regional transit coordinator (RTC) checklist to include verification that STIF Plan information is consistent between PTD's mechanized grant management system (OPTIS), the STIF Periodic Report (SPR), and Agency Periodic Report (APR) at the beginning and end of the biennium. Any discrepancies should be addressed with the QE.

*Once the two current RTC positions and the STIF Fund Coordinator and Support Analyst positions are filled, this revision to the checklist and associated process and procedures can be completed. The revised process will be in place for the 25-27 biennial STIF cycle.*

3. Ensure that STIF Formula Fund website stores the most up-to-date versions of the STIF Plans.

*Once the last STIF Plan is approved at the November meeting of the Oregon Transportation Commission, PTD can upload current 23-25 STIF formula plans to the PTD website. Expected completion by the end of 2023.*

4. Create a procedure for documenting any changes to STIF Plan after it has been approved by the OTC.

*PTD material changes to Oregon Transportation Commission (OTC) approved STIF formula plans are very rare and must be pre-approved in writing by the Division Administrator. Shifting of funds between specific combinations of projects/tasks are approved by the STIF Fund Coordinator via email correspondence, per published [October 2020 Statewide Transportation Improvement Fund Guidance for Determining Whether Expenditures are Substantially Compliant and Consistent with STIF Plan](#). PTD intends to develop a database to better document these approved shifts of funds in 2024.*

5. Update STIF desk procedures to address gaps identified in this letter for improved STIF Monitoring.

*Updating STIF desk procedures is a key task for the Compliance Program Coordinator, the STIF Fund Coordinator, and the STIF Program Manager – all vacant position in various stages of recruiting. PTD will have updated processes and procedures in place for the 25-27 STIF cycle.*

Ideally, PTD staff monitor, assess, and improve all active and public transportation programs in our portfolio, as a matter of course. There are improvements to STIF processes, below, that went into effect during this review, and we expect to continue to find areas of opportunity.

- *The STIF Periodic Report required quarterly from STIF recipients has been modified for this 23 -25 biennium. Starting this fall, and every quarter thereafter, both the QEs and Public Transportation Service Providers (PTSPs) will be required to report their unspent STIF formula funds, by project. That will allow the STIF Fund Coordinator to see where pockets of unspent cash are and allow for far better monitoring.*
- *A step to review the quarterly Agency Periodic Reports from STIF Qualified Entities to make sure what the QE reports as STIF Revenue matches what PTD has disbursed to the QE has been added to the items reviewed by the STIF Fund Coordinator, once the current vacancy is filled.*
- *PTD Staff was inconsistent on how it treated “carry forward” projects when calculating the STIF Plan maximum between the first plan period and a good portion of the 21-23 plan period. This inconsistency was discovered in April 2023 and corrected in time to complete the 21-23 STIF formula payments to the affected QEs correctly. Written procedures for how to calculate the STIF Plan Maximum have been completed.*

PTD appreciates your objective review of our STIF oversight and looks forward to continued partnership with your organization. Collaboration is good for both our areas of responsibility. Thank you for the review and the opportunity to respond.