



JACKSON COUNTY

Oregon

Internal Audit Report

Audit of Use of Revenue from Taxes on Motor Vehicle Use and Fuel Fiscal Year 2009-10

November 9, 2010

**Presented To The
Jackson County Board of Commissioners
By The
Internal Audit Program**

Audit Team

**Debbie Taylor, County Auditor
Kathryn Finwall, Senior Auditor**



**JACKSON
COUNTY**
Oregon

MEMO
INTER - OFFICE

CAO
Internal Audit

Debbie Taylor, County Auditor
CIA, CGAP, CGFM, CFE

10 S Oakdale Ave Room 214
Medford, OR 97501
Phone: (541) 774-6021
Fax: (541) 774-6455
laylordk@jacksoncounty.org

To: Board of Commissioners
From: Debbie Taylor, County Auditor *Debbie Taylor*
Subject: Audit of Use of Revenue from Taxes on Motor Vehicle Use and Fuel
Date: November 9, 2010

The attached audit report provides information concerning compliance with the State constitution and related laws pertaining to Motor Vehicle Use and Fuel Tax receipts. The audit was included in the fiscal year 2010-11 Internal Audit Plan, and the work was performed in conjunction with the county's annual external financial audit.

The audit results have been shared with the county's Audit Committee and Roads & Parks Director John Vial. The Internal Audit Program appreciates the cooperation and assistance it received from Roads & Parks staff throughout the audit process.

cc: Audit Committee
Kenneth Kuhns CPA
John Vial, Roads & Parks Director

Jackson County
Audit of Use of Revenue from Taxes on Motor Vehicle Use and Fuel
Fiscal Year 2009-10

Audit Authority

We conducted our audit in accordance with Codified Ordinance 218 pertaining to the County Auditor. The audit was included in the fiscal year 2010-11 Internal Audit Plan as part of the work we perform annually in conjunction with the county's external financial audit.

Audit Background

The Roads & Parks Department receives all motor vehicle use and fuel tax receipts that are remitted to Jackson County by the State of Oregon. In fiscal year 2009-10, the County received \$8,807,614 in motor vehicle use and fuel tax revenue. The Road Fund received \$8,719,538 and reported expenditures of \$11,574,179 in programs dependent on these revenues. The County Trails Fund received the remaining \$88,076 and reported expenditures of \$153,794 on footpaths and bicycle trails.

Motor vehicle use and fuel tax revenue can only be used for the purposes stated in the Oregon Constitution Article IX, section 3a and the statutes enacted pursuant thereto including ORS 366.514 - Use of Highway Fund for Footpaths and Bicycle Trails, and ORS 366.774 - Authorized Use of Allocation to Counties. More specifically the funds are to be spent on the construction, reconstruction, improvement, repair, maintenance, operation and use of public highways, roads, streets and roadside rest areas. The funds may also be used for other items allowed under subsection (2) of Section 3a, such as for the cost of administration. The amount to be expended on footpaths and bicycle trails is required to never in any one fiscal year to be less than one percent of the total amount of motor vehicle use and fuel tax receipts received from the highway fund. The county in lieu of expending the funds each year may credit the funds to a financial reserve fund to be held for not more than 10 years.

Audit Objectives

The objectives of our audit were to determine if:

- Roads & Parks Internal controls were reasonably adequate to ensure compliance with the Oregon Constitution Article IX Section 3a - Use of revenue from taxes on motor vehicle use and fuel, ORS 366.514 - Use of Highway Fund for Footpaths and Bicycle Trails, and ORS 366.774 - Authorized Use of Allocation to Counties.
- Roads & Parks complied with the Oregon Constitution Article IX Section 3a - Use of revenue from taxes on motor vehicle use and fuel, ORS 366.514 - Use of Highway Fund for Footpaths and Bicycle Trails, and ORS 366.774 - Authorized Use of Allocation to Counties.

Scope & Methodology

We reviewed County Road Fund and County Trail Fund activity for FY 2009-10 pertaining to motor vehicle use and fuel tax receipts. In addition, we reviewed in detail expenditures totaling \$968,210.50 or 11% of the amount of the motor vehicle use and fuel tax revenue received. Expenditures were randomly selected from 2009-10 Personal Services and Materials & Services in the Roads and County Trail programs that are dependent on motor vehicle use and fuel tax receipts.

The following table shows a summary of the expenditures we tested in detail.

2009-10 Roads and County Trails Expenditures Tested for Compliance with Oregon Constitution, Article IX Section 3 and 3a - Use of revenue from taxes on motor vehicle use and fuel, and ORS 366.514 and 366.774

Program	Materials & Services	Personal Services	Total Tested
Road Maintenance	\$463,110	\$37,571	\$500,681
General Road Administration	\$23,108	\$133,074	\$156,182
Fleet Services	\$46,910	\$86,501	\$133,411
Vegetation Management	\$47,432	\$70,977	\$118,409
Pedestrian/Bicycle Trails	\$3,500	\$56,027	\$59,527
Total	\$584,060	\$384,150	\$968,210

Audit Procedures included:

- Reviewing a memorandum from Roads & Parks showing revenue received from motor vehicle use and fuel tax receipts and the programs in which these funds were expended.
- Comparing amounts listed on the Roads & Parks memorandum to those in the county’s financial system and other supporting documentation.
- Reviewing expenditures for appropriate use of motor vehicle use and fuel tax revenue.
- Verifying that the amount of motor vehicle use and fuel tax receipts and expenditures were reasonable based on the Oregon Department of Transportation forecast.
- Discussing motor vehicle use and fuel tax revenue processes with the Roads & Parks Deputy Director.
- Calculating expenditures that could be applied against motor vehicle use and fuel tax receipts in the County Trail Fund.
- Performing other procedures as considered appropriate.

Audit Criteria

Criteria represent the laws, regulations, contracts, grant agreements, standards, measures, expected performance, defined business practices and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation. The criteria we used for our audit included: the Oregon Constitution Article IX Section 3a - Use of revenue from taxes on motor vehicle use and fuel, ORS 366.514 - Use of Highway Fund for Footpaths and Bicycle Trails, and ORS 366.774 - Authorized Use of Allocation to Counties.

Internal Controls

We gained an understanding of internal controls by discussing fuel tax revenue and expenditures with the Roads & Parks Deputy Director. Internal controls relate to an organization's system of controls that are designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, or compliance with applicable laws and regulations. Internal control comprises the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal control includes the processes and procedures for planning, organizing, directing, and controlling program operations, and management's system for measuring, reporting, and monitoring program performance. Auditors must report deficiencies in internal control that are significant within the context of the objectives of the audit.

Compliance with Government Auditing Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives.

Privileged and Confidential Information

No information was withheld from this report for privileged or confidentiality reasons.

Audit Results

Adequacy of Internal Controls

Roads & Parks internal controls are reasonably adequate to ensure compliance with the Oregon Constitution Article IX Section 3a - Use of revenue from taxes on motor vehicle use and fuel, ORS 366.514 - Use of Highway Fund for Footpaths and Bicycle Trails, and ORS 366.774 - Authorized Use of Allocation to Counties in the Road Fund. However, we did note that Roads & Parks has not established a formal process to confirm that the one percent allocation of motor vehicle use and fuel tax revenues to the County Trails Fund was expended within the fiscal year or that unexpended funds, if any, were not reserved for more than 10 years. Without a formal process to validate that that all receipts are either expended in the fiscal year or placed in and tracked as reserves, funds potentially could be reserved for more than ten years.

Compliance with Oregon Constitution

Although Roads & Parks does not have a formal system in place to confirm that one percent of motor vehicle use and fuel tax revenues received during a fiscal year are fully spent or are placed in reserves for not more than ten years, we believe there is sufficient evidence to reasonably conclude that for 2009-10 Roads & Parks complied with the provisions of the Oregon Constitution Article IX Section 3a - Use of revenue from taxes on motor vehicle use and fuel, ORS 366.514 - Use of Highway Fund for Footpaths and Bicycle Trails, and ORS 366.774 - Authorized Use of Allocation to Counties. Our conclusion is based on our verification that one percent of the motor vehicle use and fuel tax revenue was allocated to the County Trail Fund, our review and calculation of County Trail Fund expenditures that could be applied against the motor vehicle use and fuel tax receipts, and our communications with the Roads & Parks Deputy Director.

Our communications with the Roads & Parks Deputy Director identified that in addition to the County Trail Fund expenditures some work on footpath and bicycle trails is accounted for in the Road Fund. This occurs when footpath and bicycle trail projects are completed in conjunction with road projects. The Roads & Parks Deputy

Director stated he was confident that the combined amounts spent in the Road Fund and County Trail Fund exceeded the one percent of the motor vehicle use and fuel tax revenues received during 2009-10.

To help confirm that the one percent allocation of motor vehicle use and fuel tax revenues to the County Trails Fund were fully expended during FY 2009-10, we subtracted revenue received from other funding sources from total expenditures in the County Trail Fund.¹ The net expenditures exceeded the one percent allocation of motor vehicle use and fuel tax by \$27,839. Alternately, we used a more conservative approach which examined and factored in revenues and expenditures pertaining to an intergovernmental agreement between the County and certain cities for the joint management of the Bear Creek Greenway Corridor. We still found that there was sufficient expense to match against the one percent allocation of motor vehicle use and fuel tax received during 2009-10.

Recommendation

To further ensure compliance with the State constitution and State laws, we recommend that Roads & Parks develop a formal procedure to confirm that the one percent funds for County Trails are spent within the fiscal year; and if not, monitor any financial reserve account to ensure that such funds are not held for more than 10 years as required by ORS 366.514.

¹ This calculation excluded revenue from FEMA that was attributed to prior year expenditures.



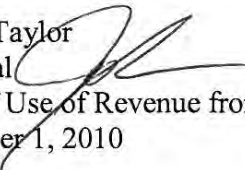
**JACKSON
COUNTY**
Roads

MEMO
INTER - OFFICE

Roads & Parks

John Vial
Director

200 Antelope Road
White City, OR 97503
Phone: (541) 774-6238
Fax: (541) 774-6295
vialjn@jacksoncounty.org

To: Debbie Taylor
From: John Vial 
Subject: Audit of Use of Revenue from Taxes on Motor Vehicle Use and Fuel
Date: November 1, 2010

This memo is in response to the Motor Vehicle Use and Fuel Tax Audit completed this last month which reviewed the proper management by the Roads and Parks Department of the revenue received from the State of Oregon's motor vehicle use and fuel taxes (Fuel Tax). The Fuel Tax is the single largest funding source of the Roads and Parks Department is revenue from the Fuel Tax and proper management of these funds is paramount to the county maintaining legislative and public confident in the proper expenditure of these revenues.

The Motor Vehicle Use and Fuel Tax Audit noted that internal controls are reasonable adequate to ensure compliance with the Oregon Constitution Article IX Section 3a - Use of revenue from taxes on motor vehicle use and fuel, ORS 366.514 - Use of Highway Fund for Footpaths and Bicycle Trails, and ORS 366.774 - Authorized Use of Allocation to Counties in the Road Fund. However, the audit did recommend that to further ensure compliance with the State constitution and State laws, that the Roads & Parks Department develop a formal procedure to confirm that the one percent funds for County Trails are spent within the fiscal year; and if not, monitor any financial reserve account to ensure that such funds are not held for more than 10 years as required by ORS 366.514.

We thank the Audit Division for your thorough review and assistance in the management of these funds. During the next several months the Roads and Parks Department will be implement changes in our accounting procedures to address the recommendations provided in the audit regarding the management of the 1% bike and pedestrian funds.

C: J Domis, Deputy Director