



Oregon

Tina Kotek, Governor

Oregon Transportation Commission

Office of the Director, MS 11

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DATE: October 26, 2023

TO: Oregon Transportation Commission

FROM: Kristopher W. Strickler
Director

SUBJECT: **Consent Item 05** – Sunset Empire Transportation District Forensic Audit

Requested Action:

Receive an informational report on the forensic audit, and associated recommendations for corrective actions, of the Sunset Empire Transportation District (SETD).

Background:

In April 2023, the Sunset Empire Transportation District unexpectedly suspended public transportation services after running out of funds. To investigate how the district became insolvent, the Oregon Department of Transportation (ODOT) contracted with an independent accounting firm to perform a forensic audit.

The independent auditors reviewed SETD's policies, procedures, vendor listings, budget-to-actual reports, audited financial statements, and a variety of expenditures related to travel and grant reimbursements. The auditors also completed interviews, financial analysis, and substantive testing on transactions.

The forensic audit resulted in findings and identified the following as reasons for SETD's financial insolvency:

- An organization-wide failure to understand and apply correct grant and fund accounting practices.
- Lack of attentiveness to and understanding of cash management. There was no evidence that anyone within the organization was monitoring cash flow activities, even as available operating cash was decreasing to the point of insolvency.
- Lack of recordkeeping and proper documentation to support grant funded activities.
- Lack of Executive Director, Finance Director, and Board oversight.
- Lack of internal controls designed to prevent mismanagement over key cycles, including budgeting, grant accounting, and cash flow management.

While the audit did not identify any clear instances of fraud, it could not conclude that no fraud was present. Instead, the largest contributing factors to SETD's insolvency appeared to be due to mismanagement and a lack of SETD management and Board oversight.

Outcomes:

ODOT developed a corrective action plan based on the forensic audit findings and will be working closely with SETD on implementation. Ensuring SETD's financial management practices become fiscally sound and in compliance with federal and state requirements is essential. Strengthening internal controls, including management and board oversight, is crucial as well. Future follow-up audits may be necessary to verify compliance.

The Transportation Commission will be updated on the SETD corrective action plan as appropriate.

Attachments:

- Attachment 01 – Sunset Empire Transportation District Forensic Audit Corrective Actions
- Attachment 02 – Sunset Empire Transportation District Forensic Audit Final Report

I. Executive Summary

After Sunset Empire Transportation District (SETD)’s recent financial difficulties and suspension of public transportation services in Clatsop County, the Oregon Department of Transportation Public Transportation Division (PTD) contracted with Kernutt Stokes, LLP to perform a forensic audit of SETD. The three focus areas were 1) federal compliance, 2) financial and attestation, and 3) fraud.

Kernutt Stokes, LLP issued a combination of findings and observations, most of which can be summarized as a lack of SETD management and Board oversight. PTD reviewed the audit information and developed corrective actions based on the severity and linkage to federal requirements. PTD also developed advisory recommendations to address additional areas identified for improvement¹. Please note that ODOT is requiring SETD not only complete corrective actions per the schedule noted in the table below, but respond to ODOT on advisory recommendations by January 15, 2024 with notice of SETD’s intent for each of the advisory recommendations and expected completion of recommendations, if they are to be implemented.

Considerable thought has been given to issuing the fewest required corrective actions by consolidating similar findings into just one corrective action. Each corrective action has a due date and PTD will be monitoring progress closely. PTD considers both the breadth and depth of many of the PTD findings to be serious and shall consider SETD a high risk subrecipient until the corrective actions are completed to the satisfaction of PTD. PTD shall continue to provide SETD technical assistance until this occurs.

PTD also received notification from ODOT Audits in August 2023 that SETD has not completed their FY2022 Annual Comprehensive Financial Report. PTD has included a related finding and corrective action in this report (Section 8 in the table below) to address this last issue.

II. PTD Findings, Required Corrective Actions and Completion Schedule

1. Budget Process

Findings:	<p>Kernutt-Stokes: The Executive Director took sole responsibility for and control of the budgetary process. (<i>Finding 1.1</i>)</p> <p>PTD: Subrecipient does not have adequate financial management policies and procedures to ensure effective financial management of FTA awards and establish a system of internal controls to safeguard against waste, loss, and misuse of Federal funds.</p> <p>Citation: 2 CFR Part 200²</p>
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¹ Some of the issues deemed as findings by Kernutt Stokes, LLP were changed to advisory recommendations by PTD when there was not a direct link to federal requirements.

² [eCFR :: 2 CFR Part 200 -- Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards](#)

Corrective Action:	SETD shall furnish a Board approved budget making policy that describes the duties of the Director of Finance, District Executive Director and SETD Board of Commissioners. This policy shall include a description of the process for approving and modifying the District's annual Board approved budget.
Due Date:	January 15, 2024

2. Budget and Grant Accounting

Findings:	<p>Kernutt-Stokes:</p> <ul style="list-style-type: none"> • There was a lack of oversight related to budgeting and grant accounting. These activities should be prepared by the Finance Director and reviewed by the Executive Director. (<i>Finding 1.4</i>) • SETD financial records are not maintained on a fund accounting basis. Invoices are not coded to specific grants as is required by grant accounting practices. (<i>Finding 3.4</i>) <p>PTD: Subrecipient does not have financial management policies and procedures to ensure effective financial management of FTA awards and establish a system of internal controls to safeguard against waste, loss, and misuse of Federal funds.</p> <p>Citation: 2 CFR Part 200</p>
Corrective Action:	<p>1) The Director of Finance and Executive Director shall attend PTD's Financial Management for transit providers training December 12-13, 2023. https://content.govdelivery.com/accounts/ORDOT/bulletins/36eca4f</p> <p>2) SETD shall furnish a Board approved cost allocation plan displaying how the costs for the quarter were allocated amongst the various grants with each its quarterly agency periodic reports and reimbursement requests during the 23-25 biennium. The cost allocation plan should contain the following elements:</p> <ul style="list-style-type: none"> •What kinds of costs will be considered indirect, versus direct program administration, •What position within the agency makes the call on this, on an invoice-by-invoice basis, •What position within the agency determines what are eligible costs for specific grants, •What position within the agency will allocate eligible costs to specific grants,

	•What is the algorithm for allocating eligible costs to specific grant
Due Date:	December 12-13, 2023 (financial management training) January 15, 2024 (cost allocation plan)

3. Budget Preparation

Findings:	<p>Kernutt-Stokes: The budgets provided by SETD were in a deficit position for every year under audit, ranging from \$500,000 up to \$1,000,000 per year. (<i>Finding 3.3</i>)</p> <p>PTD: Inadequate financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.</p> <p>Citation: 2 CFR Part 200, 49 CFR 18.20(b)(1)³, Generally Accepted Accounting Principles (GAAP)⁴</p>
Corrective Action:	The Director of Finance shall furnish PTD a copy of the draft budget for the July '24 - June '25 fiscal year.
Due Date:	March 31, 2024

4. Financial Oversight

Findings:	<p>Kernutt-Stokes:</p> <ul style="list-style-type: none"> • The Board did not perform expected financial oversight duties, such as in-depth financial report review and analysis, leading discussions and inquiring about budgets, and other financial information. (<i>Finding 1.2</i>) • The expenditure information provided by SETD was not timely or complete, implying a lack of organization of supporting documentation for all grant expenditures. (<i>Finding 6.1</i>) • The full fiscal year 2020 GL detail was not able to be provided. (<i>Finding 6.3</i>) • In the four grants tested for invoice tie-out and appropriate allocation, many invoices were unable to be provided; and in the
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³ [CFR-2009-title49-vol1-part18.pdf \(govinfo.gov\)](https://www.govinfo.gov/content/pkg/CFR-2009-title49-vol1-part18/pdf/CFR-2009-title49-vol1-part18.pdf)

⁴ <https://gars.gasb.org/Home>

	<p>case of two grants, timely support of any kind was not able to be obtained or tested. <i>(Finding 6.4)</i></p> <ul style="list-style-type: none"> • A policy stated by the Finance Director is to require prior authorization for all expenses over \$100. This is a low threshold and may be overly cumbersome to administer. Detail testing of a variety of expenses revealed this policy is not followed consistently. <i>(Finding 7.1)</i> • The policies and procedures by SETD have not been updated since 2013. It is best practice to review and update policies and procedures at least once every five years, or more frequently if significant organization changes occur. <i>(Finding 7.2)</i> <p>PTD:</p> <ul style="list-style-type: none"> • SETD Staff did not provide the Board the information it needed. The Board didn't insist on getting adequate financial information. To perform its oversight duties, SETD's Board needs to demand receipt of financials (e.g., income statement, balance sheet, statement of cash flows and summary of available fund amounts for each active award) and inquire about issues of concern. • Inadequate source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc. • Subrecipient does not have financial management policies and procedures to ensure effective financial management of FTA awards and establish a system of internal controls to safeguard against waste, loss, and misuse of Federal funds. <p>Citation: 2 CFR Part 200, 49 CFR 18.20(b)(6)</p>
Corrective Action:	<p>SETD shall furnish a Board approved financial oversight policy that describes the duties of the Director of Finance, Executive Director and SETD Board of Commissioners. These duties shall include the following:</p> <ol style="list-style-type: none"> 1) Expenditure testing, 2) Budget variance analysis, and 3) Determining the interval of internal audits.
Due Date:	January 15, 2024

5. Financial Reporting

Findings:	<p>Kernutt-Stokes:</p> <ul style="list-style-type: none">Balance sheets were not able to be provided to the audit team by SETD during forensic audit for fiscal years 2020 through 2023. (<i>Finding 3.1</i>)A review of the audited financial statements revealed no statement of cash flows was provided. (<i>Finding 3.5</i>) <p>PTD: Inadequate financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.</p> <p>Citation: 2 CFR Part 200, 49 CFR 18.20(b)(1), Generally Accepted Accounting Principles (GAAP)</p>
Corrective Action:	The Director of Finance shall include a balance sheet and a statement of cash flow in the December Board financial report and every month thereafter.
Due Date:	January 15, 2024

6. Financial Reconciliation

Findings:	<p>Kernutt-Stokes: A comparison of the audited financial statements to the respective actual budget numbers and general ledger detail provided by SETD revealed differences in revenue and expense accounts. (<i>Finding 3.6</i>)</p> <p>PTD: Inadequate financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.</p> <p>Citation: 49 CFR 18.20(b)(1)</p>
Corrective Action:	<p>SETD shall furnish:</p> <ol style="list-style-type: none">1) a Board approved financial report reconciliation policy that describes how SETD will reconcile differences between the financials it has provided the Board, and the audited financial statements, and2) a summary of a reconciliation of the FY23 financial reports.
Due Date:	January 15, 2024

7. Expenditure Support

Findings:	<p>Kernutt-Stokes: Bank and/or invoice support was not readily available for the cash expenditures selected for testing. (<i>Finding 4.1</i>)</p> <p>PTD: Inadequate source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.</p> <p>Citation: 49 CFR 18.20(b)(6)</p>
Corrective Action:	<p>SETD shall retain and keep accessible bank and invoice support for expenditures.</p> <p>SETD shall continue to email a copy of its bank statements to PTD per the OTIB loan agreement.</p>
Due Date:	Immediately

8. Financial Statement Preparation

Findings:	<p>ODOT Audit: We are unable to perform our review of SETD in accordance with the requirements of §200.331 of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, found at 2 CFR Part 200, as applicable, and Oregon Accounting Manual Policy No. 30.40.00, because the subrecipient has not completed the FY 2022 Annual Consolidated Financial Report.</p> <p>PTD: Subrecipient does not have financial management policies and procedures to ensure effective financial management of FTA awards and establish a system of internal controls to safeguard against waste, loss, and misuse of Federal funds.</p> <p>Citation: 2 CFR Part 200</p>
Corrective Action:	<p>Corrective Action: SETD shall submit a Board approved FY22 Annual Comprehensive Financial Report to the Oregon Secretary of State and PTD that contains the following elements:</p> <ol style="list-style-type: none"> 1) A Balance Sheet 2) A Statement of Cash Flows 3) A Corrective Action Plan signed by both the Executive Director and Director of Finance.
Due Date:	January 15, 2024

9. Internal Controls

Findings:	<p>Kernutt-Stokes: Accounts payable and payroll are processed by the same individual. (<i>Finding 1.3</i>)</p> <p>PTD: Subrecipient does not have financial management policies and procedures to ensure effective financial management of FTA awards and establish a system of internal controls to safeguard against waste, loss, and misuse of Federal funds.</p> <p>Citation: 2 CFR Part 200</p>
Corrective Action:	<p>SETD shall furnish a Board approved Internal Control policy that enhances internal controls to ensure:</p> <ol style="list-style-type: none"> 1) Adequate segregation of duties to minimize the likelihood of fraud or human error, 2) Purchasing authority is established for all personnel responsible for agency purchases, 3) Approval of all purchases should require approval of the requesting party and a supervisor to the requesting party, 4) Any changes made to an entry in the accounting system have appropriate approval authority.
Due Date:	January 15, 2024

10. Travel

Findings:	<p>Kernutt-Stokes:</p> <ul style="list-style-type: none"> • In 3 out of 160 travel expenses tested, the former Executive Director authorized reimbursement for their own travel expenses. (<i>Finding 5.1</i>) • In 34 out of 160 travel expenses tested, the expenses were over the \$100 authorization threshold but did not have evidence of proper authorization. (<i>Finding 5.2</i>) <p>PTD: Subrecipient does not have financial management policies and procedures to ensure effective financial management of FTA awards and establish a system of internal controls to safeguard against waste, loss, and misuse of Federal funds.</p> <p>Citation: 49 CFR 18.20(b)(6)</p>
Corrective Action:	<p>Subrecipient must furnish Board-adopted financial management policies and procedures to ensure effective financial management of FTA awards</p>

	and establish a system of internal controls to safeguard against waste, loss, and misuse of Federal funds.
Due Date:	January 15, 2024

III. **PTD Advisory Recommendations**

The following details advisory recommendations for additional areas of improvement. SETD is expected to address these matters as expeditiously as possible while balancing resolution of the PTD audit findings. ODOT is requiring SETD respond to ODOT on advisory recommendations by January 15, 2024 with notice of SETD's intent for each of the advisory recommendations and expected completion of recommendations, if they are to be implemented.

PTD will follow-up with SETD to monitor progress and provide technical assistance.

1. **Board Expertise**

Kernutt-Stokes: There are no current individuals on the Board with a background in finance.
(*Finding 1.5*)

Recommendation:

As a best practice the Board should seek out at least one individual with experience in financial management or analysis. The absence of capable financial oversight in the Board can lead to budgets being set too aggressively, misunderstood financial statements and financial reports, and a lack of ability to hold management accountable for providing explanations on overages in expenses, shortfalls in revenues, and changes in cash.

2. **Budget Revisions**

Kernutt-Stokes: Approved budgets were altered throughout the year and after Board approval.
(*Finding 3.2*)

Recommendation:

SETD staff revised the "budget" repeatedly when presenting the Board snapshots of how SETD was performing to budget. This severely hampered the Board's visibility of SETD's financial condition. The Board needs to ensure that SETD adheres to the budget it has approved through monitoring financial performance with the approved budget.

3. **Optimizing Funds**

Kernutt-Stokes: Expenditures and reimbursements are not being planned, tracked, or submitted in a way that optimizes grant and other funding requirements or opportunities. (*Finding 6.2*)

Recommendation:

Grant management is critical to effective and efficient use of grant funds (federal and state). SETD

shall attend PTD financial management training in December (noted in PTD findings above) and make efforts to develop this technical capacity as quickly as possible.

4. Expenditure Documentation

Kernutt-Stokes: When submitting grant expense information to ODOT through OPTIS, SETD does not include supporting documentation for the expenditures reported for reimbursement. While this is an option in OPTIS, SETD does not use this feature. (*Observation 6.5*)

Recommendation:

SETD should attach supporting documentation for all expenditures submitted for reimbursement.

5. Travel Expenditures

Kernutt-Stokes: SETD had a significant amount of travel in fiscal year 2023 despite the cash flow issues present at the time. (*Finding 5.3*)

Recommendation:

SETD should evaluate available budget prior to authorizing travel expenses to ensure sufficient funding is available for this purpose.

6. Travel Rates

Kernutt-Stokes: Travel arrangements were made above the government rate and at hotels that were more expensive than the average nightly hotel rate in the area. (*Finding 5.4*)

Recommendation:

SETD should adhere to the government rate for hotels where possible.

7. Communication

Kernutt-Stokes: No staff meetings occurred under the former Executive Director. It is expected that an Executive Director have regularly scheduled meetings with staff, including budget meetings, and weekly and monthly meetings with staff and management. (*Observation 1.6*)

Recommendation:

Regular staff budget-to-actual meetings are advised. The discussion within the group raises awareness and possible ideas for course correction.

8. Vendor List

Kernutt-Stokes: The vendor list provided by SETD contained old, inactive, or inaccurate vendor information. (*Observation 2.1*)

Recommendation:

The vendor list should be regularly updated to remove inactive vendors and outdated information to reduce the risk of payments being made to the incorrect address or business and opportunities for fraud.

Oregon Department of Transportation

Forensic Audit of
Sunset Empire Transportation District
September 26, 2023

EXECUTIVE SUMMARY

The objective of this audit was to investigate the suspension of public transportation services by Sunset Empire Transportation District on April 29, 2023.

Results of the audit are classified into three categories. The categories are defined below, ranking from most consequential to least.

- **Finding** – More serious in nature, a finding is an instance of a breakdown or partial breakdown, leading to a potential failure of the Agency's objectives. A finding should result in immediate corrective action.
- **Observation** – An instance of a minor deviation from an otherwise well-implemented process. An observation merits inclusion in the audit report and should be evaluated and corrected as resources and time allow.
- **Process Improvement Recommendation (PIR)** – An instance of a potential improvement opportunity. A recommendation does not require action but is encouraged for improvement.

Our audit focused on specific areas identified as high risk by prior audits and requested by Oregon Department of Transportation. Through interviews with staff, fiscal analysis, and substantive and detail testing, we identified noncompliance with grant requirements, inadequate financial oversight, and multiple opportunities for improvement with a focus on the following areas:

Audit Area	Page	Findings	Observations	PIRs
Interviews	5	5	1	-
Vendor-to-Employee Data Comparison	7	-	1	-
Budget-to-Actual Data Comparison	8	6	-	-
Cash Detail Expenditures	10	1	-	-
Travel Expenses	11	4	-	-
Grant Expense Reimbursements and Reporting	13	4	1	-
Policies and Procedures	15	2	-	-
Total		22	3	-

Background

Sunset Empire Transportation District (SETD) is a public transit agency serving Clatsop County, Oregon. SETD was formed by the Clatsop County Board of Commissioners in 1993 and is governed by a seven-member board of elected commissioners. SETD's services cover approximately 840 square miles and serve over 37,000 citizens. Astoria is the largest city in Clatsop County and is the center of SETD's services as well as SETD's headquarters location.

On April 29, 2023, SETD ceased operations. Jeff Hazen was the Executive Director of SETD from September 2014 through May 2023 and resigned from his position a few days after SETD announced a cessation of operations in late April. After Hazen's resignation, Paul Lewicki took the role of Interim Executive Director and SETD resumed operations with a series of loans from ODOT.

As part of its annual budget, SETD receives a significant proportion of their funding from the State of Oregon, specifically through ODOT; the remaining income is derived from other sources such as property taxes and passenger fares.

Scope and Methodology

The objective of the audit was to determine the cause(s) of the financial turmoil at SETD that led to the unexpected suspension of public transportation services. To achieve the audit objectives, the examination team (Kernutt Stokes) reviewed SETD's policies, procedures, vendor listings, budget-to-actual reports, audited financial statements, and a variety of expenditures related to travel and grant reimbursements.

The audit included interviews, financial analysis, and substantive testing on transactions. Interviews were conducted with SETD employees, including the Interim Executive Director, Finance Director, Human Resources Director, and Chair of the Board of Commissioners.

Our audit was conducted in accordance with the guidelines set forth in the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing and the Association of Certified Fraud Examiners' Code of Professional Standards. The standards set criteria for internal audit departments and fraud examiners in the areas of independence, professional proficiency, scope, and performance of work, and management of the department.

The audit performed was limited to financial information for the periods beginning July 1, 2019, through April 29, 2023, for SETD. Kernutt Stokes selected transactions from the cash accounts, travel and training, and grant reimbursements for detailed testing based on auditor judgment. These expenditures were tested for existence, authorization, accurate allocation, and reasonableness.

Cash and Travel Expenditures tested:

Fiscal Year	Cash Expenditures	Travel Expenditures
2020	20	-
2021	20	-
2022	20	-
2023	20	160
Total	80	160

Grant activities tested:

Grant Number	Term	Total \$ Spent per Summaries Provided by SETD	Total \$ Allowed per Agreement
32841	7/1/18 - 6/30/21	202,133	205,000
32854	7/1/18 - 6/30/20	479,379	510,000
32868	7/1/18 - 6/30/20	11,250	30,000
33433	7/1/19 - 6/30/21	1,370,524	1,566,309
33597	7/1/19 - 6/30/21	226,391	309,763
33787	10/1/19 - 6/30/21	579,564	820,000
34209	5/1/20 - 6/30/21	501,222	501,222
34220	7/1/20 - 6/30/22	343,924	1,253,000
34377	7/1/20 - 6/30/21	No support received	20,000
34415	9/1/20 - 6/30/23	665,588	861,108
34737	3/1/21 - 6/30/23	20,000	45,000
34997*	7/1/21 - 6/30/23	352,047	2,233,708
35045*	7/1/21 - 6/30/23	No support received	2,148,909
35108	7/1/21 - 6/30/23	479,632	784,000
35136	7/1/21 - 6/30/23	No support received	75,000
35192*	7/1/21 - 6/30/23	24,450	307,528
35340*	7/1/22 - 6/30/25	No support received	720,000
35349	2/1/22 - 6/30/23	No support received	40,000
Total:		\$ 5,256,104	\$ 12,430,547

*Included in detail testing

Conclusion

Our examination was designed to identify the reasons for SETD's financial insolvency whether due to fraud, error, mismanagement, or other issues. This phase of the examination identified a variety of issues which are summarized below:

1. There was an organization-wide failure to understand and apply correct grant and fund accounting practices. Expenses that could have been applied to specific grants were instead applied to general funds resulting in budgeted grant eligible revenues not being collected. An understanding of proper grant accounting is essential in order to meet the financial management and technical capacity requirements for grant awards, and it does not appear that anyone at SETD had the necessary skills and knowledge to manage the awards correctly.
2. There was a lack of attentiveness to and understanding of cash management. Budget documents focused almost exclusively on profit and loss activities but not cash flow. We found no evidence through our examination that anyone within the organization was monitoring cash flow activities, even as available operating cash was decreasing to the point of insolvency.
3. There was a lack of recordkeeping and proper documentation to support grant funded activities. For a variety of activities we evaluated, either no support was provided, or the work and time required to provide support was excessive. SETD does not appear to be maintaining the type of organized financial management system that federal standards require for grant recipients.
4. There was a lack of Executive Director, Finance Director, and Board oversight and a lack of internal controls designed to prevent mismanagement over key cycles, including budgeting, grant accounting, and cash flow management.
5. While our examination did not identify any clear instances of fraud, we cannot conclude that no fraud was present. Instead, while undetected fraud may exist, it appears that the largest contributing factors to the organization's insolvency were due to mismanagement and lack of oversight.

The issues noted above are supported by detailed issues in the Results section of this report.

RESULTS

1. Interviews

Objective: To acquire information and insights pertaining to the culture and operational practices of SETD, in order to better understand financial procedures and internal controls, and to verify the sequence of events leading up to April 2023.

Audit work performed: Kernutt Stokes interviewed management at SETD.

FINDINGS	5
OBSERVATIONS	1
PIRS	-

1.1

FINDING	The Executive Director took sole responsibility for and control of the budgetary process.
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Interviews with SETD management revealed a culture that lacked collaboration relating to financial processes, specifically budgeting and Board presentations. The Finance Director did not participate in these processes, nor did they receive any training on fund accounting, grant reporting, or budgeting. The Executive Director was the only individual at SETD involved with budget creation and management.

1.2

FINDING	The Board did not perform expected financial oversight duties, such as in-depth financial report review and analysis, leading discussions and inquiring about budgets, and other financial information.
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It is the responsibility of the Board to be aware of SETD's financial status and to ensure compliance with policies and procedures. While the Board is not involved in the day-to-day operations of SETD, it is their responsibility to review financial reports, ask questions, and to get clear and satisfactory answers from management when budgets are set, changed, or have significant variances from expectations.

1.3**FINDING**

Accounts payable and payroll are processed by the same individual.

A lack of segregation of duties between these two roles leaves SETD susceptible to fraud and error.

1.4**FINDING**

There was a lack of oversight related to budgeting and grant accounting. These activities should be prepared by the Finance Director and reviewed by the Executive Director.

The siloed actions of the former Executive Director preparing the annual budgets, updating budgets, and allocating grant expenditures without any level of review leaves SETD open to the risk of financial misrepresentation and inaccurate financial records.

1.5**FINDING**

There are no current individuals on the Board with a background in finance.

As a best practice the Board should seek out at least one individual with experience in financial management or analysis. The absence of capable financial oversight in the Board can lead to budgets being set too aggressively, misunderstood financial statements and financial reports, and a lack of ability to hold management accountable for providing explanations on overages in expenses, underages in revenues, and changes in cash.

1.6**OBSERVATION**

No staff meetings occurred under the former Executive Director. It is expected that an Executive Director have regularly scheduled meetings with staff, including budget meetings, and weekly and monthly meetings with staff and management.

The lack of upward and downward communication can harm an organization's culture. An environment that allows staff to share concerns with management is likely to increase employee morale and retention.

2. Vendor-to-Employee Data Comparison

Objective: To review vendor information for potential matches and relationships to employee data.

Audit work performed: Kernutt Stokes compared employee names and addresses to the vendor list provided by SETD to review for overlap in information. Kernutt Stokes also verified the list of vendors to ensure all vendors were real businesses with applicable goods or services related to SETD's operational needs.

FINDINGS	-
OBSERVATIONS	1
PIRS	-

2.1

OBSERVATION	The vendor list provided by SETD contained old, inactive, or inaccurate vendor information.
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The list of 563 vendors included 59 vendors marked as inactive, 9 vendors with incorrect or missing addresses, 9 vendors that were an individual's name without an attached business, and 2 vendors that have permanently closed. A vendor list that is not regularly updated to remove inactive vendors and outdated information can increase the risk of payments being made to the incorrect address or business and creates opportunities for fraud.

3. Budget-to-Actual Data Comparison

Objective: To understand the budget process and budgetary accuracy.

Audit work performed: Performed budget-to-actual analysis for fiscal years 2020 through 2023.

FINDINGS	6
OBSERVATIONS	-
PIRS	-

3.1

FINDING	Balance sheets were not able to be provided to the audit team by SETD during forensic audit for fiscal years 2020 through 2023.
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The balance sheet is fundamental accounting information for any organization. The lack of an available accurate balance sheet displays an undeveloped accounting system and significantly hinders efforts to review the financial viability of the organization.

3.2

FINDING	Approved budgets were altered throughout the year and after Board approval.
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The former Executive Director would routinely update the budget throughout the year to match the actual financial performance. According to SETD policy and financial reporting best practices, budget updates mid-year need to be approved by the Board before acceptance. Interviews revealed the Board was unaware budgetary changes were made mid-year and the Board did not approve budgetary modifications.

3.3

FINDING	The budgets provided by SETD were in a deficit position for every year under audit, ranging from \$500,000 up to \$1,000,000 per year.
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Budgeted revenues may exceed budgeted expenses, but a budgeted deficit implies some looming financial issues. Deficit budgeting should only be considered for temporary strategic reasons that are well communicated and understood by everyone in the organization, which did not appear to be the case at SETD.

3.4**FINDING**

SETD financial records are not maintained on a fund accounting basis. Invoices are not coded to specific grants as is required by grant accounting practices.

The budgets, actual financial information, and interviews with management revealed no evidence of fund accounting, commitments of contingency funds, or other segregation of funds consistent with appropriate fund accounting. Being a municipal organization, SETD must adhere to government accounting standards, including fund accounting and appropriate segregation of funds. All grant funds were comingled with operating accounts, and we found no evidence that they were being tracked according to the applicable guidelines for each funding source.

3.5**FINDING**

A review of the audited financial statements revealed no statements of cash flows was provided.

The audited financial statements are one way for an organization to make sure thorough, accurate financial information is provided to management and the Board at least annually. The audit states that it was performed in accordance with Government Auditing Standards which require the presentation of certain financial statements, including the statements of cash flows that shows the inflow and outflow of cash from an organization over the course of the year. The omission of statements of cash flows deprived the organization, management, and the Board of necessary information about the usage of cash and the lack of cash reserves.

3.6**FINDING**

A comparison of the audited financial statements to the respective actual budget numbers and general ledger detail provided by SETD revealed differences in revenue and expense accounts.

The audited financial statements for FY20 contain \$379,000 less revenue and \$128,000 less expense than the records provided by SETD. Similarly, the FY21 audited financial statements contain \$152,000 less revenue and \$28,000 less expense than the records provided by SETD. All adjusting entries recommended by the auditors should be evaluated and either discussed with the auditors in the case of a disagreement or accepted and booked on SETD's internal trial balance leaving no differences. The differences in these reports further emphasize the lack of financial accounting acumen within the organization.

4. Cash Detail Expenditures

Objective: To vouch and evaluate the appropriateness of cash expenditures.

Audit work performed: Kernutt Stokes performed detail testing on a sample of cash expenditures for each fiscal year under audit to determine if the expenditure was recorded on the bank statement and was a reasonable use of funds for SETD's operational needs.

FINDINGS	1
OBSERVATIONS	-
PIRS	-

4.1

FINDING	Bank and/or invoice support was not readily available for the cash expenditures selected for testing.
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Of the 80 cash transactions tested, 8 did not have invoice support and 5 had either missing or incorrect bank statement support. The sum of the dollar amounts of the transactions with insufficient support exceeded \$780,000. Transactions with insufficient support are detailed below.

Transaction Date	Amount	No Invoice	No Bank Support
7/26/2019	2,750.00	X	X
7/14/2020	5,000.00	X	
7/15/2020	3,490.31	X	
8/11/2020	3,490.31		X
5/12/2021	2,000.00	X	
6/21/2022	1,300.19	X	
6/30/2022	631.33		X
10/13/2022	15,000.00	X	
1/18/2023	6,780.30	X	
5/8/2023	500,000.00		X
5/24/2023	15,000.00	X	
6/23/2023	225,000.00		X
Total	\$ 780,442.44	8	5

5. Travel Expenses

Objective: To ensure travel expenses were authorized and appropriate.

Audit work performed: Kernutt Stokes reviewed all travel expenses recorded in fiscal year 2023 to determine each expense was authorized by an appropriate individual and was an appropriate expenditure.

FINDINGS	4
OBSERVATIONS	-
PIRS	-

5.1

FINDING	In 3 out of 160 travel expenses tested, the former Executive Director authorized reimbursement for their own travel expenses.
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This issue does not imply that the expenses were not appropriate or in-line with other travel expenses; but the practice of self-approval does create the opportunity for someone to authorize expenses for items that may not be reasonable or appropriate. The dollar amount of these expenses was under \$200.

5.2

FINDING	In 34 out of 160 travel expenses tested, the expenses were over the \$100 authorization threshold but did not have evidence of proper authorization.
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SETD policy per the Finance Director dictates all expenses over \$100 must be authorized in advance via a purchase order. Many of the travel expenses tested did not have any authorization support.

5.3

FINDING	SETD had a significant amount of travel in fiscal year 2023 despite the cash flow issues present at the time.
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Typically, organizations with cash flow issues will try to reduce non-essential expenditures, such as travel and trainings. Continuing to spend on these items while operating cash was running low indicates a lack of fiscal analysis and responsibility. In many cases, organizations such as SETD can fund specific travel and training costs by building them into grant requests as part of the approved funding activities. However, the training and travel at SETD did not appear to be thought out and planned in this way leading to additional spending without a clear funding source to provide for it.

5.4**FINDING**

Travel arrangements were made above the government rate and at hotels that were more expensive than the average nightly hotel rate in the area.

Government organizations have a negotiated government rate for lodging that should be used whenever possible. If the lodging in an area does not accept the approved government rate, efforts should be made to stay at a moderately-priced hotel. Travel and training needs should be applied for and tracked within grants that allow a portion of expenditures to go towards those purposes.

6. Grant Expense Reimbursements and Reporting

Objective: To ensure expenses submitted for reimbursement from a grant are tracked and documented in an organized manner and to ensure each grant expense is appropriately allocated per terms of grants and only reimbursed once.

Audit work performed: Kernutt Stokes reviewed and compared the reimbursement expenditure listing for every reimbursable grant for the fiscal years under audit. Kernutt Stokes also performed detail testing of a representative sample of other grants to ensure grant allocation requirements were being met.

FINDINGS	4
OBSERVATIONS	1
PIRS	-

6.1

FINDING	The expenditure information provided by SETD was not timely or complete, implying a lack of organization of supporting documentation for all grant expenditures.
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Of the 18 grants selected for testing, support was received for only 13, and many were still missing detail for one or more transactions. Not being able to provide grant supporting documents on demand indicates a lack of organization when submitting expenditures for reimbursement and a higher likelihood of error. Grantors may ask at any time for supporting documentation of the expenses and may rescind funds or refuse reimbursement when inadequate documentation is available.

Almost all grant agreements reviewed contain the following language stipulating organization of grant expenditure documentation: “[SETD] shall document the expenditure of all Grant Funds disbursed by State under this Agreement. [SETD] shall create and maintain all expenditure records in accordance with generally accepted accounting principles and in sufficient detail to permit State to verify how the Grant Funds were expended.”

6.2

FINDING	Expenditures and reimbursements are not being planned, tracked, or submitted in a way that optimizes grant and other funding requirements or opportunities.
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Through both interviews and testing it was confirmed that expenses were paid with STIF funds and from grants with relatively few spending restrictions first. Grants with more restrictive reimbursement requirements were often used after other funds were exhausted, or not at all. This practice results in poor matching of expenditures to grant funds. Analysis of the grant funding available to SETD vs the funding that was actually obtained shows that annually hundreds of thousands, or even millions of dollars, was left unclaimed simply because the organization was not submitting receipts for reimbursement or not tracking

what expenses were eligible by individual grant. Funding from STIF should have been used as bridge funding to keep projects moving until grant funding was able to be reimbursed, but instead was used as the primary method of operating cash.

6.3

FINDING	The full fiscal year 2020 GL detail was not able to be provided.
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Kernutt Stokes requested the fiscal year 2020 GL detail for the purposes of grant testing and did not receive a complete transaction detail. The inability to access historical financial information when needed is a significant issue.

6.4

FINDING	In the four grants tested for invoice tie-out and appropriate allocation, many invoices were unable to be provided; and in the case of two grants, timely support of any kind was not able to be obtained or tested.
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The table below details the expense sources and categories for each of the four grants used for detail testing.

Grant Number:	34997	35045 (STIF)	35192	35340
Reimbursed Expense	236,067	No support available	21,939	No support available
Match	115,980		2,511	
Total	352,047		24,450	
Salaries & Wages*	249,346		19,783	
Vouched Invoices	3,056		4,058	
No Invoices	99,645		609	
Total	352,047		24,450	

*No additional support outside of general ledger transactions was provided for salaries and wages amounts.

6.5

OBSERVATION	When submitting grant expense information to ODOT through the Oregon Public Transit Information System (OPTIS), the Oregon grant reporting platform, SETD does not include supporting documentation for the expenditures reported for reimbursement. While this is an option in OPTIS, SETD does not use this feature.
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Using OPTIS or another documentation storage platform to help maintain structure and support of grant information would help maintain organization of grants and their related information.

7. Policies and Procedures

Objective: To review the financial policies and procedures of SETD.

Audit work performed: Kernutt Stokes reviewed all SETD-provided financial policies and procedures for appropriateness, timely review, and adherence to financial best practices.

FINDINGS	2
OBSERVATIONS	-
PIRS	-

7.1

FINDING	A policy stated by the Finance Director is to require prior authorization for all expenses over \$100. This is a low threshold and may be overly cumbersome to administer. Detail testing of a variety of expenses revealed this policy is not followed consistently.
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34 expenses tested for authorization that were over \$100 did not have proper authorization and 21 expenses tested for authorization that were under \$100 did have authorization support unnecessarily. This policy is not written in the financial policies and procedures provided to the audit team.

7.2

FINDING	The policies and procedures provided by SETD have not been updated since 2013. It is best practice to review and update policies and procedures at least once every five years, or more frequently if significant organizational changes occur.
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Outdated policies and procedures allow for inconsistent application and degrade the importance of the policies over time. Regular review and revision of policies and procedures incorporates consistent reminders to employees and management as well as encourages input when updates are made.

Acknowledgement

We appreciate the courtesy and cooperation we received from the management and staff, specifically from ODOT and SETD throughout this audit. We thank them for the effort and time they extended to provide us with requested information throughout the course of the audit.