

CITY OF PORTLAND, OREGON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Section II - Financial Statement Findings

FINDING 2014-001 – Portland Bureau of Transportation (PBOT), Accounting for Construction-In-Progress (CIP), Significant Deficiency in Controls

Criteria: Costs reported in the financial statements as CIP should contain accumulated costs on capital projects that are currently in the construction phase or otherwise not yet placed in service. Furthermore, management processes and controls over the accounting for CIP should be sufficient so that there is effective communication between project managers and those responsible for maintaining capital asset records on the status of each project. Effective processes and controls would include communicating when costs accumulated need to be expensed, as is the case when a project is cancelled or is not going to be completed, and communicating when a project is completed and placed in service along with the estimated service life so that appropriate depreciation entries can be made.

Condition: Our audit procedures identified that the CIP balance reported in the financial statements includes roughly \$3.3 million of accumulated costs on projects where decisions had previously been made that the related projects were not going to be completed. In addition, we identified roughly \$2.8 million in accumulated costs included in CIP for projects that had been completed.

Cause: PBOT's communication processes and internal controls were insufficient to provide adequate communication to those responsible for maintaining the City's capital asset records.

Effect: Total assets and net position is overstated by \$3.3 million representing accumulated costs on projects that have been terminated, and there is a misclassification between the capital asset accounts in the amount of \$2.8 million for the completed projects that have not been reclassified out of CIP. Furthermore, the reported net book value of capital assets and net position is overstated by the amount of depreciation that should have been claimed for the wear and tear from the current use of the related assets through June 30, 2014 in an undetermined amount.

Auditors' Recommendations: PBOT should revise its project management processes and controls to require a review of all projects included in construction in progress periodically throughout the year, as well as annually as part of the year-end close process and effective communication with those responsible for maintaining the capital asset records to improve the accuracy of the reporting of capital assets and related accumulated depreciation in the financial statements.

Views of responsible officials and planned corrective actions (unaudited): Management of the City prepared their response in a separately issued document.

Section III - Federal Award Findings and Questioned Costs

None reported