
Secretary of State

State of Oregon
**HEALTH, HOUSING, EDUCATIONAL AND
CULTURAL FACILITIES AUTHORITY**
Special Review



Audits Division

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CULTURAL FACILITIES AUTHORITY**
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Auditing for a Better Oregon

The Honorable John Kitzhaber
Governor of Oregon
State Capitol
Salem, Oregon 97310

William E. Love, Executive Director
Health, Housing, Educational and
Cultural Facilities Authority
1700 Pacwest Center
1211 SW Fifth Avenue
Portland, Oregon 97204-3795

The objectives of this review of the Health, Housing, Educational and Cultural Facilities Authority (the authority) for the period of July 1, 1995, through June 30, 1996 were to determine whether controls were in place to safeguard assets and whether selected transactions complied with pertinent laws, rules, and regulations. The State Treasurer maintains the accounting records for the authority.

Our review found no material weaknesses in the authority's internal controls, and we did not identify any instances of noncompliance with laws and regulations.

We conducted our audit in accordance with generally accepted government auditing standards. In this regard, we inquired of agency personnel, reviewed policies and procedures, tested relevant reports, and evaluated management controls as required to accomplish the objectives of our audit.

Our audit was limited to the specific matters described above, and was based on tests and procedures we considered necessary in the circumstances.

OREGON AUDITS DIVISION

Sam Cochran
Acting State Auditor

Fieldwork Completion Date:
January 9, 1997

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SUMMARY

The Health, Housing, Educational and Cultural Facilities Authority (the authority) was created by the Oregon Legislature in 1989, and operates under *Oregon Revised Statutes* Chapter 289, Sections 005 through 240. The authority is empowered to assist with the assembling and financing of lands and construction of facilities for housing, educational, and cultural uses. The authority determines whether proposed projects are eligible for and merit bond financing.

The authority consists of five members appointed by the State Treasurer for four year terms. During fiscal year 1996 the authority recommended, and the State Treasurer issued \$49,002,000 in revenue bonds.

Our audit reviewed the activities of the authority for the period July 1, 1995, through June 30, 1996. The audit was conducted to determine whether the authority has controls in place to safeguard assets and whether selected transactions complied with pertinent laws, rules, and regulations. We found no material weaknesses in the authority's internal controls and we did not identify any significant instances of noncompliance with laws and regulations.

INTRODUCTION

ORGANIZATION AND FUNCTIONS

The Health, Housing, Educational and Cultural Facilities Authority (the authority) was created by the Oregon Legislature in 1989, and operates under *Oregon Revised Statutes* Chapter 289, Sections 005 through 240. The authority is empowered to assist with the assembling and financing of lands and construction of facilities for housing, educational, and cultural uses. The authority was created so the state may be able to effect substantially the provision of decent, affordable housing, the achievement of higher levels of learning, and the development of the intellectual and artistic enrichment of its citizens.

The authority determines whether proposed projects are eligible for and merit bond financing. If approved, the authority recommends to the State Treasurer that bonds be issued to finance the project. The State Treasurer has final authority to determine whether to issue the revenue bonds. All bonds issued shall be payable solely from the revenue pledged to the payment thereof. In no case shall the revenue bonds constitute debt of the State, nor shall the State be responsible for any expenses or costs incurred in connection with the issuance of such bonds.

The authority consists of five members appointed by the State Treasurer for four-year terms. The authority has entered into a personal services contract for an Executive Director, who handles the administrative duties of the authority. The authority does not have employees, nor does it have a separate independent office. The State Treasurer also contracts for the services for bond counsel, financial advisor and trustee. These services are either paid directly by the applicants or from the bond proceeds, and are not paid by the authority or the State Treasurer.

FINANCIAL ACTIVITIES

The legislature authorized \$150,000,000 in Pass-through Revenue Bonds for our audit period July 1, 1995, through June 30, 1996. Of this authorized amount, the authority

recommended, and the State Treasurer issued \$49,002,000 in revenue bonds. These bonds were issued for four projects.

- \$16,000,000 was issued in a public offering on behalf of Peace Health for equipment and modernization of hospital facilities in Eugene and Florence.
- \$21,330,000 was issued in a public offering on behalf of Reed Institute (Reed College) to refund a substantial portion of prior issued bonds and to modernize and update existing facilities.
- \$7,720,000 was issued in a public offering on behalf of Oregon Baptist Retirement Homes to acquire and rehabilitate the Weider Retirement Center in Portland.
- \$3,952,000 was issued in a public offering on behalf of Tualatin Valley Housing Partners to acquire and upgrade a low-income housing facility.

The authority pays a prescribed rate to the State Treasurer's office, which performs all accounting functions for the authority. For the audit period, the authority collected revenues in the amount of \$128,350. These revenues were collected from interest income of \$4,839, application fees of \$2,500, and bond financing closing costs of \$121,011. Expenses for the same period totaled \$82,041, including \$72,365 for personal services and \$9,676 for other service and supplies expenses.

As of June 30, 1996, the authority had \$105,354 in cash on deposit with the State Treasurer.

SCOPE AND METHODOLOGY

We reviewed internal controls at the authority and tested transactions for the period July 1, 1995, through June 30, 1996. The transactions were tested to evaluate the effectiveness of internal controls and test compliance with laws and regulations. We tested revenues, service and supplies expenditures, travel expenditures, and bond indentures. The authority had no fixed assets during the period under review.

We selected eight revenue transactions for testing. Our tests were designed to determine if internal controls were operating effectively and receipts were recorded accurately and timely. Selected transactions were traced to deposit slips and supporting documentation. We verified the revenues collected were supported by an application or other documentation, and the fee charged was appropriate.

For testing of service and supplies expenditures, we selected 11 expenditures. We reviewed the supporting documentation to verify the expenditures were adequately supported, properly authorized, agree with contract prices, and correctly recorded.

We selected two travel claims to determine if the claims were in compliance with appropriate regulations. Specifically, we verified the claims were approved, receipts were attached to document the claim, and travel was related to the authority member's duties.

Our review of bond indentures checked for compliance with certain legal requirements as promulgated in ORS Chapter 289.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Our review was limited to the areas specified in this section of the report.

AUDIT RESULTS

REPORT ON INTERNAL CONTROL

The management of the Health, Housing, Educational, and Cultural Facilities Authority (the authority) is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control, errors or irregularities may nevertheless occur and not be detected. Also, projections of any evaluation of the internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit, we obtained an understanding of internal control. With respect to the internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control elements does not reduce to a relatively low level the risk that errors or irregularities may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no

matters involving the internal control and its operations that we considered to be material weaknesses as defined above. However, we noted other matters involving the internal control and its operation that have been communicated separately to management.

**REPORT ON COMPLIANCE
WITH LAWS AND
REGULATIONS**

Compliance with laws and regulations applicable to the authority is the responsibility of management. As part of our audit, we performed tests of the authority's compliance with certain provisions of laws and regulations relating to selected transactions. However, the objective of our audit was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

REPORT DISTRIBUTION

This report is a public record and is intended for the information of the Health, Housing, Educational, and Cultural Facilities Authority and its management, the Department of Administrative Services' management, the governor of the state of Oregon, the Oregon Legislative Assembly, and all other interested parties.

COMMENDATION

The courtesies and cooperation extended by the officials and employees of the Health, Housing, Educational, and Cultural Facilities Authority and the Oregon State Treasury during the course of our audit were very commendable and sincerely appreciated.

AUDIT TEAM

Stephanie Schutzler, CPA, Audit Administrator
Mark Montgomery

AGENCY'S RESPONSE TO THE AUDIT REPORT

**HEALTH, HOUSING, EDUCATIONAL
and CULTURAL FACILITIES AUTHORITY**

William E. Love
Executive Director

April 29, 1997

Audits Division
Secretary of State
State of Oregon
255 Capitol Street NE
Suite 500
Salem, OR 97310

ATTN: Stephanie Schutzler, Audit Administrator

RE: Authority Audit

Ladies/Gentlemen:

I have reviewed the exit draft of the Audit Report of the Authority forwarded with Sharron Goggins' letter of April 23, 1997.

I am obviously pleased with the Report. It appears that there are no significant deficiencies in the Authority's procedures or operations which merit comment in the Report.

As I indicated in the follow-up telephone conversation with Stephanie Schutzler, there appears to be no justifiable reason for an exit interview with regard to the Authority and the Report. I offer no suggestions for corrections or revision and am of the opinion that the draft form of the Report merits finalization.

In the Report, under the heading of "Report of Internal Control," the following was noted:

"However, we noted other matters involving the internal control and its operation that have been communicated separately to management."

To be sure that nothing got overlooked on our part, it would be helpful to me if you could provide me with a check-list or summary of all such non-material items that might have been discussed with me, or Linda Escobar, in the Authority office or with the Treasurer's office. One such item had to do with the handling of checks payable to the Authority and delivered to the Authority office. In the past, these were forwarded to the Treasurer's office in Salem for processing and deposit. Since the audit, we now make the deposit directly at the bank on the day of receipt, and forward a copy of the relevant deposit information to the Treasurer's office.

Stephanie Schutzler
April 29, 1997
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I want to thank all involved in the audit process for the professionalism shown throughout.

If there are any other questions or items meriting further discussion, please let me know.

Very truly yours,



William E. Love

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