
Secretary of State

State of Oregon

WATER RESOURCES DEPARTMENT

Special Review



Audits Division

Secretary of State

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Auditing for a Better Oregon

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

Martha Pagel, Director
Water Resources Department
158 12th Street NE
Salem, Oregon 97310

This report encompasses a review of selected activities at the Water Resources Department (department) for the period July 1, 1995, through June 30, 1996. The objectives of the audit were to determine whether controls were in place to safeguard assets and whether selected transactions complied with pertinent laws, rules, and regulations.

The results of our review found no material weaknesses in the department's internal controls. We noted one area where the department can improve its operations. The department has not conducted a physical inventory of its fixed assets since 1993 and, therefore, is not in compliance with the Department of Administrative Services' policy on physical inventories.

We conducted the 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

John N. Lattimer
State Auditor

Fieldwork Completion Date:
February 14, 1997

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SUMMARY

The Water Resources Department (department) administers and enforces laws concerning the water resources of this state, subject to the policy direction by the Water Resources Commission. The department's powers and responsibilities are stated in chapters 536 through 543 of the *Oregon Revised Statutes*. The Water Resources Commission, consisting of seven members representing the five river basin management areas of the state, establishes the policies for the department's operation.

The department collects revenue from three main sources: Water Right Application and Permit Fees, Well Construction Fees, and Hydroelectric Licensing Fees. In addition, the department receives lottery funds from the Economic Development Fund and has a General Fund appropriation amounting to \$12,336,860 for the 1995-97 biennium. The department's expenditures are funded 42 percent from General Funds, 14 percent from fees collected, and 44 percent from Lottery Funds.

The objectives of the audit were to determine whether controls were in place to safeguard assets, and whether selected transactions complied with pertinent laws, rules, and regulations for the period July 1, 1995, to June 30, 1996. We noted one area where the department can improve its operations. The department has not conducted a physical inventory of its fixed assets since 1993, thereby causing it to not be in compliance with the Department of Administrative Services' policy on physical inventories.

In its response, which is included in this report, the agency agreed with the finding and stated that a physical inventory has been completed.

INTRODUCTION

ORGANIZATION AND FUNCTIONS

The Water Resources Department (department) administers and enforces laws concerning the water resources of the state. The department's director is appointed by the Governor, subject to confirmation by the Senate. The department's powers and responsibilities are stated in chapters 536 through 543 of the *Oregon Revised Statutes*.

The Water Resources Commission (commission) consists of seven members that represent the five river basin management areas of the state. The commission establishes the policies for the operation of the Water Resources Department. The members are appointed by the Governor to four-year terms, subject to confirmation by the Senate.

The department's functions are organized into five divisions: the Director's Office, Resource Management, Field and Technical Services, Water Rights and Adjudication, and Administrative Services.

The Director's Office maintains the agency's strategic plan, conducts contested case hearings on water rights matters and enforcement actions, and coordinates the adoption of administrative rules. This office also develops and monitors legislative proposals, provides responses to citizen requests for information, and provides direct support for the Water Resources Commission activities.

The Resource Management Division is responsible for water management plans, rules, and policies as well as collection of technical information on water resources, supplies, and uses. Major areas of work include staffing the Governor's Watershed Enhancement Board and developing water basin plans and conservation programs.

The Field and Technical Services Division is responsible for enforcement and regulation of the state's water laws. This is accomplished through 17 watermaster districts. Staff also collect stream flow and other hydrologic data for use by department staff, other agencies, and the public.

The Water Rights and Adjudication Division is responsible for evaluation of both instream and out-of-stream water right applications and issuance of new water rights permits and certificates. Under Oregon law, almost all water users, including agricultural enterprises, cities, and state or federal agencies, must apply for and receive a water right before initiating water use.

The Administrative Services Division provides administrative and business services support to manage the day-to-day operation of personnel, fiscal, and support activities. The division also manages the Water Development Loan Program. This program was also audited, the results of which will be issued in a separate audit report. The loan program has a separate budget and its transactions are not included in the financial activities section of this report.

FINANCIAL ACTIVITIES

The department collects revenue from three main sources: Water Right Application and Permit Fees, Well Construction Fees, and Hydroelectric Licensing Fees. In addition, the department receives lottery funds from the Economic Development Fund and has a General Fund appropriation amounting to \$12,336,860 for the 1995-97 biennium. Listed below are the revenues recorded for the year ending June 30, 1996, compared to the amount estimated to be collected for the biennium ending June 30, 1997.

Category	Recorded Revenue for the Year Ending June 30, 1996	Estimated Revenues for 1995-97 Biennium	Percent of Biennial Estimate Collected
Power and Water License Fees	\$ 1,237,260	\$ 3,277,925	38%
Charges for Services	\$ 227,504	\$ 690,854	33%
Interest Income	\$ 85,441	\$ 100,600	85%
Sales Income	\$ 12,258	\$ 31,229	39%
Other Income	\$ 2,558	\$ 5,100	50%
Transfer-in Dept. of Energy	\$ 78,541	\$ 163,842	48%
Transfer-in Lottery Funds	\$ 3,640,127	\$ 7,373,245	49%
Transfer-in Dept. of Geology	\$ 0	\$ 3,000	0 %
Total	\$ 5,283,689	\$11,645,795	45%

The department's expenditure budget for the 1995-97 biennium includes the authority to spend \$5,558,508 of lottery funds

received in the 1993-95 biennium. In total the department's expenditures are funded 42 percent from General Funds, 14 percent from fees collected, and 44 percent from lottery funds. Listed below are expenditures by division, with the amounts recorded for the year ending June 30, 1996, compared to the amounts budgeted to be spent for the biennium ending June 30, 1997.

Division	Recorded Expenditures for the Year Ending June 30, 1996	Budgeted Expenditures for 1995-97 Biennium	Percent of Biennial Budget Expended
Director's Office	\$ 745,995	\$ 3,518,092	21%
Resource Management	\$ 758,797	\$ 2,121,244	36%
Field & Technical Services	\$ 5,584,483	\$ 9,780,951	57%
Water Rights and Adjudication	\$ 1,582,861	\$ 3,291,510	48%
Administrative Services	\$ 1,149,654	\$ 2,066,684	56%
Watershed Enhancement Board	\$ 3,322,986	\$ 8,653,148	38%
Total	\$ 13,144,776	\$ 29,431,629	45%

SCOPE AND METHODOLOGY

We reviewed the internal controls at the Water Resources Department (department) and tested transactions for the period July 1, 1995, to June 30, 1996. The transactions were tested to evaluate the effectiveness of internal controls and compliance with laws and regulations. We tested receipts and revenues, payroll expenditures, and other expenditures.

In our receipt and revenue testing, we reviewed subsidiary systems used to monitor water right applications and to issue licenses and permits to verify that the items recorded in those systems agreed with the accounting records. We tested water right refunds to verify they were calculated correctly. We also verified that the fee rates used were properly authorized.

For payroll, we tested whether the actual funding of positions agreed to what was budgeted and whether proper payroll rates were being used. We also tested payments for work-out-of-class and final payments to separated employees to determine whether they were properly authorized and correct amounts were paid. We reviewed the procedures for recording compensatory time and tested other leave accrual records to determine if the records were accurately maintained.

For other expenditures, we selected a sample of transactions to trace to supporting documentation. We verified that the amount paid was accurate, properly classified and recorded, complied with applicable agreements and regulations, and was an appropriate use of public funds. We also reviewed the usage of permanently assigned vehicles to determine whether the costs were justifiable. In addition, we reviewed fixed assets for compliance with applicable regulations.

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

AUDIT RESULTS

REPORT ON INTERNAL CONTROL

Management of the Water Resources Department (department) is responsible for establishing and maintaining internal control. In fulfilling this responsibility, management's estimates and judgments are required to assess the expected benefits and related costs of internal control. The objectives of internal control are to provide management with reasonable assurance regarding the reliability of financial reporting, the effectiveness and efficiency of operations, and compliance with laws and regulations. Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of the 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 the internal control. With respect to the internal control, we obtained an understanding of the design of relevant controls 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 the internal control. Accordingly, we do not express such an opinion.

Our consideration of the internal control would not necessarily disclose all matters in internal control that might be material weaknesses under the 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 control activities 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 that we considered to be material weaknesses as defined above.

**REPORT ON COMPLIANCE
WITH LAWS AND
REGULATIONS**

Compliance with laws and regulations applicable to the department is the responsibility of management. As part of our audit, we performed tests of the department's compliance with certain provisions of laws and regulations relating to selected transactions. The objective of our audit, however, 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 one instance of noncompliance that is required to be reported herein under *Government Auditing Standards*. The instance of noncompliance is reported in the FINDINGS AND RECOMMENDATIONS section of the report.

**FINDINGS AND
RECOMMENDATIONS**

Fixed Asset Inventory

The Water Resources Department (department) has fixed assets totaling \$764,000 on its June 30, 1996 financial statements. According to department management, the last detailed inventory of fixed assets was performed in 1993. Since that time the department has moved to another office building.

The *Oregon Accounting Manual* requires that state agencies conduct a complete physical inventory of nonexpendable property at least once each biennium. An annual inventory is recommended.

Regular physical inventories provide accountability for agency property, allows discrepancies in the records to be resolved in a timely manner, and ensures assets are properly reported in the records.

We recommend that the department conduct a physical inventory of nonexpendable property, investigate any discrepancies, and update their records. In addition, the department should take steps to ensure this inventory is performed at least on a biennial basis in the future.

REPORT DISTRIBUTION

This report is a public record and is intended for the information of the Water Resources Department's 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 Water Resources Department, during the course of our audit were very commendable and sincerely appreciated.

AUDIT TEAM

Stephanie Schutzler, CPA, Audit Administrator
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AGENCY'S RESPONSE TO THE AUDIT REPORT

June 10, 1997

Secretary of State
Oregon Division of Audits
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WATER
RESOURCES
DEPARTMENT

Thank you for the results of the recent Water Resources Department, Special Review for the period July 1, 1995, through June 30, 1996. I was pleased to learn that no material weaknesses were found involving the internal controls of the agency and that only a single finding was reported.

FINDINGS AND RECOMMENDATIONS:

"The Water Resources Department has fixed assets totaling \$764,000 on its June 30, 1996, financial statements. According to department management, the last detailed inventory of fixed assets was performed in 1993... We recommend the department conduct a physical inventory of non-expendable property, investigate any discrepancies, and update their records. In addition, the department should take steps to ensure this inventory is performed at least on a biennial basis in the future."

AGENCY RESPONSE:

Concur with the finding. The agency has been in the process of conducting the required inventory of capitalized assets for the last couple of years. However, an increased work load and limited resources have caused the agency to delay finalization of a completed project report. Management has relied on a strong system of internal controls to ensure that assets were recorded and reported appropriately. During this review, your staff tested our controls related to the acquisition of capitalized assets and found that the transactions sampled could be traced from purchase to inventory.

ACTION AND IMPLEMENTATION PLAN:

The agency has completed a formal physical inventory of all capitalized assets. A final project report dated June 3, 1997, has been issued. You now have that report in your work papers. All discrepancies have been reconciled. Agency records are current. No material problems were discovered as a result of our review. The agency will conduct a physical inventory of capitalized assets once every two years and sample test during the interim year.

Again, thank you for conducting an objective evaluation of the financial operations of this agency. We appreciate the professional and constructive work of the Audits Division staff.

Sincerely,



Martha O. Pagel
Director



c: James McAdler, Statewide Accounting Manager,
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