

Report No. 2008-05

April 9, 2008



Charles A. Hibner, Director, Audits Division

Bill Bradbury, Secretary of State

Secretary of State Audit Report

State of Oregon

Board of Architect Examiners

A Semi-Independent Agency

For the Biennium Ended June 30, 2007

Contract Auditor: Merina & Company, LLP

Office of the Secretary of State

Bill Bradbury
Secretary of State

Jean Straight
Deputy Secretary of State



Audits Division

Charles A. Hibner, CPA
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The Honorable Ted Kulongoski
Governor of Oregon
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Board of Directors
Oregon Board of Architect Examiners
205 Liberty Street NE, Suite A
Salem, Oregon 97301

This report presents audited financial statements of the Oregon Board of Architect Examiners, a semi-independent agency of the State of Oregon, as of and for the biennium ended June 30, 2007, and a report on its internal control over financial reporting and on compliance with applicable laws, regulations and contracts. The audit was performed by Merina & Company, LLP for the Secretary of State Audits Division.

Sincerely,
OREGON AUDITS DIVISION

Charles A. Hibner, CPA
Director

**OREGON BOARD OF ARCHITECT
EXAMINERS**

FINANCIAL STATEMENTS
AND SUPPLEMENTARY DATA
For the Biennium Ended
June 30, 2007
with
Independent Auditors' Report

**MERINA
& COMPANY, LLP**

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Oregon Board of Architect Examiners
205 Liberty Street NE, Suite A
Salem, OR 97301

Charles Hibner, Director
Oregon Audits Division
255 Capitol Street NE, Suite 500
Salem, OR 97310

We have audited the accompanying financial statements of the governmental activities and the special revenue fund of the Oregon Board of Architect Examiners, a semi-independent agency of the State of Oregon, as of and for the two years ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Oregon Board of Architect Examiners' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the special revenue fund of the Oregon Board of Architect Examiners, as of June 30, 2007, and the budgetary comparison statement for the special revenue fund for the two years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2008, on our consideration of the Oregon Board of Architect Examiners' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. That report is separately presented in the Other Reports section as listed in the table of contents.


Merina & Company, LLP
West Linn, Oregon
January 17, 2008

OREGON BOARD OF ARCHITECT EXAMINERS
(A Semi-Independent Agency of the State of Oregon)
STATEMENT OF NET ASSETS
June 30, 2007

	<u>Governmental Activities</u>
ASSETS:	
Cash and cash equivalents	\$ 324,736
Interest receivable	10,279
Investments	<u>463,878</u>
Total assets	<u><u>\$ 798,893</u></u>
LIABILITIES:	
Accounts payable	\$ 14,298
Compensated absences	<u>8,310</u>
Total liabilities	<u>22,608</u>
NET ASSETS:	
Unrestricted	<u>776,285</u>
Total net assets	<u>776,285</u>
Total liabilities and net assets	<u><u>\$ 798,893</u></u>

OREGON BOARD OF ARCHITECT EXAMINERS
(A Semi-Independent Agency of the State of Oregon)
STATEMENT OF ACTIVITIES
For the Biennium Ended June 30, 2007

	<u>Expenses</u>	<u>Net Revenue (Expenses) and Changes in Net Assets</u>
EXPENSES:		
Governmental activities:		
Licensing	\$ 631,459	<u>\$ (631,459)</u>
Total program expenses		<u>(631,459)</u>
GENERAL REVENUES:		
General revenues:		
Licenses and fees		791,962
Interest income		45,117
Other income		<u>1,448</u>
Total general revenues		<u>838,527</u>
Change in net assets		207,068
NET ASSETS, BEGINNING		<u>569,217</u>
NET ASSETS, ENDING		<u><u>\$ 776,285</u></u>

The accompanying notes are an integral part of these financial statements

OREGON BOARD OF ARCHITECT EXAMINERS
(A Semi-Independent Agency of the State of Oregon)
BALANCE SHEET - GOVERNMENTAL FUND
June 30, 2007

	Total Governmental Fund
ASSETS:	
Cash and cash equivalents	\$ 324,736
Interest receivable	10,279
Investments	<u>463,878</u>
Total assets	<u>\$ 798,893</u>
 LIABILITIES AND FUND BALANCE:	
Accounts payable	<u>\$ 14,298</u>
Total liabilities	<u>14,298</u>
 FUND BALANCE:	
Unreserved	784,595
Total fund balance	<u>784,595</u>
Total liabilities and fund balance	<u>\$ 798,893</u>
 Amounts reported in the statement of net assets are different because:	
Total fund balance	\$ 784,595
Long-term liabilities are not due and payable in the current period and therefore are not reported in funds	<u>(8,310)</u>
Net assets of governmental activities	<u>\$ 776,285</u>

OREGON BOARD OF ARCHITECT EXAMINERS
(A Semi-Independent Agency of the State of Oregon)
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUND
For the Biennium Ended June 30, 2007

	Total Governmental Fund
REVENUES:	
License and fees	\$ 791,962
Interest income	45,117
Other income	1,448
	<hr/>
Total revenues	838,527
	<hr/>
EXPENDITURES:	
Personal services	342,890
Service and supplies	280,259
	<hr/>
Total expenditures	623,149
	<hr/>
Revenues over (under) expenditures	215,378
	<hr/>
FUND BALANCE, BEGINNING	569,217
	<hr/>
FUND BALANCE, ENDING	\$ 784,595
	<hr/> <hr/>

OREGON BOARD OF ARCHITECT EXAMINERS
(A Semi-Independent Agency of the State of Oregon)
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Biennium Ended June 30, 2007

	Biennial	Actual		Biennial	Variance
	Budget	FY 2006	FY 2007		Positive
	Original				(Negative)
	& Final				
REVENUES:					
License and fees	\$ 640,000	\$ 424,422	\$ 367,540	\$ 791,962	\$ 151,962
Interest income	7,000	9,403	35,714	45,117	38,117
Other income	750	803	645	1,448	698
Total revenues	647,750	434,628	403,899	838,527	190,777
EXPENDITURES:					
Personal services	378,100	188,448	154,442	342,890	35,210
Service and supplies	269,650	144,564	135,695	280,259	(10,609)
Total expenditures	647,750	333,012	290,137	623,149	24,601
Revenues over (under) expenditures	-	101,616	113,762	215,378	215,378
FUND BALANCES, BEGINNING	-	569,217	670,833	569,217	569,217
FUND BALANCES, ENDING	\$ -	\$ 670,833	\$ 784,595	\$ 784,595	\$ 784,595

The accompanying notes are an integral part of these financial statements

OREGON BOARD OF ARCHITECT EXAMINERS
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
For the Biennium Ended June 30, 2007

NATURE OF THE ORGANIZATION

State Board of Architect Examiners (the Board) prescribes qualifications for the practice of architecture, conducts examination to qualify applicants prior to registration, and issues certificates to those who qualify. The Board has authority to revoke certificates and assess civil penalties against unregistered individuals practicing without statutory authority. The Board is primarily concerned with the quality and safety of the buildings constructed within Oregon's borders.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Board is a semi-independent agency of the State of Oregon. The Board was created in 1919 and operates under Oregon Revised Statutes (ORS) Chapter 671.010 – 671.220. The Board consists of seven members appointed by the governor for four-year terms. Five members are licensed architects and two members are public citizens.

Pursuant to Oregon Senate Bill 1127 adopted in 1999, the Board was granted semi-independent status by the Legislature.

Basis of Presentation

The accompanying financial statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to government entities. The accounts of the Board are organized in a special revenue fund which is used to account for the Board's activities. Revenues are from license fees, civil penalties and interest income.

Government-wide Statements

The statement of net assets and the statement of activities display information about the Board as a whole. These statements include all the financial activities of the Board.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available, except for license fees which are recognized when received. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, long-term compensated absences are recorded only when payment is due.

OREGON BOARD OF ARCHITECT EXAMINERS
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
For the Biennium Ended June 30, 2007

Budget

The Board is required to adopt budgets on a biennial basis. The Board may adopt or modify a budget only after holding a public hearing and must give notice of budget hearings to all licensees.

Unlike most budgets in state government where the agency budgets are enacted into law by the legislature, the Board's budget is not subject to review and approval by the legislature or to future modification by the legislature or the Emergency Board. For this reason, the budgets adopted by the Board are considered to be nonappropriated budgets. The budgetary statement included herein compares the total of annualized nonappropriated budgets for fiscal years 2006 and 2007 to actual expenditures for the two years ended June 30, 2007.

Cash and Cash Equivalents

Cash and investments with maturities of less than three months are classified as cash equivalents.

Supplies

Supplies are charged as expenditures when purchased.

Compensated Absences

Permanent employees are granted paid time off benefits of varying amounts to specified maximums depending on tenure with the Board.

Equipment

Equipment with a cost of more than \$5,000 is depreciated over its useful life. Currently, the Board does not have any equipment with a cost basis greater than \$5,000.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that management make estimates and assumptions which affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

CASH AND INVESTMENTS

The following is the investment balance as of June 30, 2007:

	<u>Fair Value</u>
Certificates of deposit	<u>\$463,878</u>

OREGON BOARD OF ARCHITECT EXAMINERS
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
For the Biennium Ended June 30, 2007

Interest rate risk

The Board has an investment policy that limits investments as a means of managing its exposure to fluctuating interest rates. The Board invests in certificates of deposit in order to reduce interest rate risk. Once the investment is made, the interest rate does not change through the maturity date.

Credit risk

State statutes authorize the State Board of Architect Examiners to invest in general obligations of the U.S. Government and its agencies, certain debt obligations of Oregon, California, Washington and Idaho, bank repurchase agreements, bankers' acceptances, and certain corporate debt obligations, among others.

Concentration of credit risk

All investments of the Board shall be made in accordance with Oregon Revised Statutes: ORS 294.035 (Investment of surplus funds of political subdivisions; approved investments), ORS 294.040 (Restriction on investments under ORS 294.035), ORS 294.135 (Investment maturity dates), and ORS 294.145 (Prohibited conduct for custodial officer). Any revisions or extensions of these sections of the ORS shall be assumed to be part of this investment policy immediately upon being enacted.

Custodial credit risk – deposits

In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned. Oregon Revised Statutes require the depository institution to maintain on deposit with a collateral pool manager security having a value of not less than 25% of the outstanding certificates of participation issued by the pool manager. However, in accordance with State statutes, the State Treasurer allows certain depository banks to be the custodian with respect to their own pledged collateral securities. For these institutions, the State Treasurer is the collateral pool manager. As of June 30, 2007, the Board's bank balance from both checking and money market accounts was \$323,657. Of this deposit, \$100,000 was covered by Federal Depository Insurance. The remaining balance of \$223,657 was covered by a collateral certificate held in the pledging financial institution's trust department or agent, in the Board's name.

Custodial credit risk – investments

In the case of investments, this is the risk that Board will not be able to recover the value of its investment or collateral security that is not held in the Board's name but is in the possession of an outside party.

OREGON BOARD OF ARCHITECT EXAMINERS
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
For the Biennium Ended June 30, 2007

PENSION PLAN

Employee Retirement Plan

Board employees hired after August 28, 2003, participate in the Oregon Public Service Retirement Plan (OPSRP) which is a part of the Public Employees Retirement System (PERS). Employees hired on, or before, this date are PERS members. All Board employees who work over 600 hours per year are eligible to participate in the plans after completing six months of employment with a PERS/OPSRP covered employer. Both plans require an actuarially determined contribution from the employer and an employee contribution of 6 percent of covered salary. The Board pays the employee's contribution as allowed by law. Both plans are administered by the Public Employees Retirement Board under the guidelines of Oregon Revised Statutes, Chapter 238 and 238A. Both plans provide retirement benefits and cost-of-living adjustments, as well as disability, post-employment healthcare, and death benefits to plan members and beneficiaries. A copy of the Oregon Public Employees Retirement System annual financial report may be obtained by writing to the Oregon Public Employee Retirement System, PO Box 23700, Tigard, Oregon 97281-3700.

Board contributions for fiscal year 2007 equaled what was required.

Defined Benefit Plans

Oregon Public Service Retirement Plan (OPSRP) The Pension Program of OPSRP is a cost-sharing multiple-employer defined benefit pension plan. The Board is required by statute to contribute actuarially computed amounts as determined by the PERS Board. Rates are subject to change as a result of actuarial valuations. The rate for a covered employee's salary for fiscal year 2007 was 4.43 percent.

Public Employees Retirement System (PERS) PERS plan members also participate in a cost-sharing multiple-employer defined benefit pension plan. The Board is required by statute to contribute actuarially computed amounts as determined by the PERS Board. The rates are subject to change as a result of subsequent actuarial valuations. During fiscal year 2007, the Board contributed 8.69 percent of covered salary

Defined Contribution

The Individual Account Program (IAP) is the defined contribution portion of OPSRP. The IAP is administered by the PERS Board. It is applicable to non-PERS members as of August 29, 2003, and applicable to active PERS members as of January 1, 2004. Contributions made prior to establishment of the IAP remain in the members' PERS accounts.

Board retirement contributions for the year ending June 30, 2007, were approximately \$13,756. Contributions for fiscal year 2006 were approximately \$16,347 and \$18,251 for fiscal year 2005.

Other Charges

The Board is also required to pay a share of the debt service requirements for a \$2 billion bond issued to reduce the unfunded liability of PERS. PERS began collection of the amounts in May

OREGON BOARD OF ARCHITECT EXAMINERS
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
For the Biennium Ended June 30, 2007

2004. The Board contributions for debt service requirements for the year ending June 30, 2007, were approximately \$5,478 and approximately \$8,770 for fiscal year ending June 30, 2006.

EMPLOYEE LEAVE

Sick leave is earned at the rate of eight hours per month with no maximum limit. Accumulated sick leave at June 30, 2007 can be used in case of an employee's extended illness or injury. When the employee retires, any sick leave accrual terminates and no compensation made for such hours. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

Vacation time is earned, subject to a maximum accumulation of 250 to 350 hours depending on employee classification, at a rate of eight hours per month to 17.34 hours per month depending on employee classification and length of service. The time off is vested when earned and recorded as an expenditure. Accumulated paid time off, based on current salary rates, was \$8,310 at June 30, 2007.

INSURANCE

Insurance programs are administered for the Board by the Risk Management Division of the Oregon Department of Administrative Services, which provides insurance coverage to all state agencies with a blanket honesty and faithful performance bond, general liability and vehicle liability self-insurance, and self-insurance property damage program.

The cost of servicing insurance claims and payments is covered by charging an assessment to each State entity based upon its share of services provided in a prior period.

LEASE COMMITMENT

The Board leases space under a five year lease expiring August 31, 2009. Total lease payments for the two years ended June 30, 2007 were \$61,820. Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2008	\$ 31,727
2009	\$ 31,727
2010	\$ 5,288
Totals	<u>\$ 68,742</u>

Future minimum lease payments are based on a base rent of \$2,644 per month. However, the base rent can fluctuate from year to year based on the percentage change in the Consumer Price Index published by the United State Bureau of Labor Statistics, which is undeterminable at this time.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

Board of Directors
Oregon Board of Architect Examiners
205 Liberty Street NE, Suite A
Salem, Oregon 97301

Charles A. Hibner, Director
State Audits Division
255 Capitol Street NE, Suite 500
Salem, Oregon 97310

We have audited the financial statements of the governmental activities and the special revenue fund of the Oregon Board of Architect Examiners, as of and for the two years ended June 30, 2007, which collectively comprise the Oregon Board of Architect Examiners' basic financial statements and have issued our report thereon dated January 17, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Oregon Board of Architect Examiners' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Oregon Board of Architect Examiners' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Oregon Board of Architect Examiners' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Oregon Board of Architect Examiners' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Oregon Board of Architect Examiners' financial statements that is more than inconsequential will not be prevented or detected by the Oregon Board of Architect Examiners' internal control. We consider the deficiency described in the accompanying Schedule of Findings and Responses to be a significant deficiency in internal control over financial reporting. This deficiency is listed as 2007-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Oregon Board of Architect Examiners' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Oregon Board of Architect Examiners' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Oregon Board of Architect Examiners', in a separate letter dated January 30, 2008.

Oregon Board of Architect Examiners' response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit Oregon Board of Architect Examiners' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the audit committee, Board of Directors, the Governor of the State of Oregon and the Oregon Legislative Assembly, and is not intended to be and should not be used by anyone other than these specified parties.


Merina & Company, LLP
West Linn, Oregon
January 17, 2008

OREGON ARCHITECT EXAMINERS BOARD
(A Semi-Independent Agency of the State of Oregon)
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2007

Financial Statement Findings

2007-1

Condition

Journal entries were neither supported by adequate documentation nor approved by management.

Criteria

To minimize the risk of improper entries, all journal entries should include supporting documentation and be approved by someone other than the individual making the entry.

Effect

Lack of journal entry review and approval potentially increases the risk of misstatements in financial reporting.

Cause

A journal entry documentation standard and approval process has not been implemented.

Recommendation

We recommend that journal entries include support documentation and be approved by the Administrator.

Response

The agency rarely makes journal entries. When it does, notes are commonly made directly in QuickBooks software to explain the situation. Most commonly, the agency's bookkeeper is contacted to perform the journal entry. The agency administrator has generally had conversations with staff and/or the bookkeeper in order to have the entries made. So, even though there is no documented evidence, the administrator has authorized at least the majority (if not all) of the entries.

However, in the future, a new process will be instituted. The new process will involve all supporting documentation to be provided to the administrator, who will then review/date/sign authorizing that the entries be made. Notes of explanation will still be made directly in QuickBooks software, but the supporting documentation with the authorization will be kept in a file entitled "Journal Entries". The file will be maintained by the Business Services Coordinator. This should allow access to the supporting documentation, which should coordinate along with the notes and entries in the software, and should reflect that the entries were approved by management in advance.

ABOUT THE SECRETARY OF STATE AUDITS DIVISION

The Oregon Constitution provides that the Secretary of State shall be, by virtue of his office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

Directory of Key Officials

Director	Charles A. Hibner, CPA
Deputy Director	William K. Garber, MPA, CGFM
Deputy Director	Mary E. Wenger, CPA

This report, a public record, is intended to promote the best possible management of public resources. Copies may be obtained from:

internet: <http://www.sos.state.or.us/audits/index.html>

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