

Report No. 2008-31

September 30, 2008



Charles A. Hibner, Director, Audits Division

Bill Bradbury, Secretary of State

Secretary of State Audit Report

State of Oregon Department of Human Services

Follow-Up Report on Applying Agreed-Upon Procedures: Safe Drinking Water Revolving Loan Fund

Office of the Secretary of State

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Secretary of State

Jean Straight
Deputy Secretary of State



Audits Division

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**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

To the Director and Management of the Department of Human Services:

As required by the U.S. Environmental Protection Agency (EPA), the State of Oregon submits financial statements for the Safe Drinking Water Revolving Loan Fund. Oregon's financial statements include three agencies: Oregon Economic and Community Development Department (OECD), Department of Human Services (department) and the Department of Environmental Quality (DEQ). The department prepares the financial statements for DHS and DEQ. The OECD prepares its own financial statements and provides them to the department for inclusion in the financial statements.

We performed the procedures, as described below, which were agreed to by the Department of Human Services (department). The procedures were solely to provide the department assurance that the department's set-aside funds, reported as part of the Safe Drinking Water Revolving Loan Fund financial statements for the year ended June 30, 2006, were reported in accordance with generally accepted accounting principles after making corrections identified in our prior report (Secretary of State Report No. 2007-30). Department management is responsible for preparing the financial statements and any required supplementary information, maintaining adequate accounting records, and selecting and applying appropriate accounting standards. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and generally accepted government auditing standards. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below.

The procedures performed and associated findings are discussed below.

1. We determined whether the balance sheet and operating statement were mathematically accurate and prepared in a format required by Generally Accepted Accounting Principles (GAAP). We found no exceptions as a result of this procedure.
2. We determined whether the statement of cash flows was mathematically accurate and prepared in the format required by GAAP. We did not review the details of the line items. We found that the statement was mathematically correct and prepared in the format required by GAAP.
3. We verified that the account balances on the balance sheet and operating statement were corrected in accordance with our prior report recommendations, Secretary of State Report No. 2007-30. We found the department had made corrections to the account balances to report the balances in accordance with GAAP.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the financial statements. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. This report is intended solely for the information and use of the department and is not intended to be and should not be used by anyone other than the specified parties.

OREGON AUDITS DIVISION

A handwritten signature in black ink, appearing to read "Bill Bradbury". The signature is written in a cursive style with a long, sweeping tail on the final letter.

Bill Bradbury
Secretary of State

September 30, 2008

STATE OF OREGON
SAFE DRINKING WATER REVOLVING LOAN FUND
ENTERPRISE FUND
BALANCE SHEET
JUNE 30, 2006

	<u>OECD</u>	<u>DHS</u>	<u>DEQ</u>	<u>TOTAL</u>
Assets				
<i>Current Assets:</i>				
Cash and Cash Equivalents	\$ 13,114,711	\$ (682,895)	\$ (35,938)	\$ 12,395,878
Interest Receivable	1,090,042	0	0	1,090,042
Accounts Receivable – Federal	0	812,466	0	812,466
Due from Other Agencies	43,088	0	59,979	103,067
<i>Total Current Assets</i>	<u>14,247,841</u>	<u>129,571</u>	<u>24,041</u>	<u>14,401,453</u>
<i>Noncurrent Assets:</i>				
Loans Receivable, Net	75,359,004	0	0	75,359,004
<i>Total Noncurrent Assets</i>	<u>75,359,004</u>	<u>0</u>	<u>0</u>	<u>75,359,004</u>
Total Assets	\$ <u>89,606,845</u>	\$ <u>129,571</u>	\$ <u>24,041</u>	\$ <u>89,760,457</u>
Liabilities and Net Assets				
<i>Current Liabilities:</i>				
Accounts Payable	\$ 22,516	\$ 26,503	\$ 803	\$ 49,822
Payroll Payable	0	0	21,881	21,881
Vacation Payable	10,555	0	0	10,555
<i>Total Current Liabilities</i>	<u>33,071</u>	<u>26,503</u>	<u>22,684</u>	<u>82,258</u>
<i>Noncurrent Liabilities:</i>				
Due to Other Funds	\$ 100,000	\$ 103,068	\$ 1,357	\$ 204,425
Vacation Payable	3,518	0	0	3,518
<i>Total Noncurrent Liabilities</i>	<u>103,518</u>	<u>103,068</u>	<u>1,357</u>	<u>207,943</u>
Total Liabilities	<u>136,589</u>	<u>129,571</u>	<u>24,041</u>	<u>290,201</u>
Unrestricted Net Assets:	89,470,256	0	0	89,470,256
Total Net Assets	<u>89,470,256</u>	<u>0</u>	<u>0</u>	<u>89,470,256</u>
Total Liabilities and Net Assets	\$ <u>89,606,845</u>	\$ <u>129,571</u>	\$ <u>24,041</u>	\$ <u>89,760,457</u>

These statements are unaudited.

STATE OF OREGON
SAFE DRINKING WATER REVOLVING LOAN FUND
ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>OECD</u>	<u>DHS</u>	<u>DEQ</u>	<u>TOTAL</u>
Operating Revenues				
Grant Income	\$ 0	\$ 8,989,931	\$ 0	\$ 8,989,931
Interest Income	2,025,933	0	0	2,025,933
Total Operating Revenues	<u>2,025,933</u>	<u>8,989,931</u>	<u>0</u>	<u>11,015,864</u>
Operating Expenses				
Personal Services	256,824	0	0	256,824
Services and Supplies	12,504	0	0	12,504
Loan Principal Forgiven	674,098	0	0	674,098
Administrative Expenses	0	302,457	0	302,457
Technical Assistance	0	102,124	0	102,124
State Program Management	0	595,002	0	595,002
Local Assistance/Other State Programs:				
Source Water Assessment Program	0	0	0	0
Implementation of Protection	0	207,083	0	207,083
Implementation of Protection – DEQ	0	0	368,916	368,916
Water System Capacity Program	0	113,697	0	113,697
Total Operating Expenses	<u>943,426</u>	<u>1,320,363</u>	<u>368,916</u>	<u>2,632,705</u>
Operating Income (Loss)	1,082,507	7,669,568	(368,916)	8,383,159
State Match	2,911,660	0	0	2,911,660
Transfers Out: to DEQ	0	(368,916)	0	(368,916)
Transfers Out: to OECD	0	(7,472,794)	0	(7,472,794)
Transfers In: From Public Health (DHS)	7,472,794	0	368,916	7,841,710
Change In Net Assets	<u>11,466,961</u>	<u>(172,142)</u>	<u>0</u>	<u>11,294,819</u>
Net Assets – Beginning	78,003,295	0	0	78,003,295
Prior Period Adjustment	0	172,142	0	172,142
Net Assets – Ending	<u>\$ 89,470,256</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 89,470,256</u>

These statements are unaudited.

**STATE OF OREGON
SAFE DRINKING WATER REVOLVING LOAN FUND
ENTERPRISE FUND
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>TOTAL</u>
Cash Flows From Operating Activities:	
Loan Interest Repayments	\$ 1,497,338
Loan Principal Repayments	1,970,393
Payments to Set-Asides	(1,689,279)
Loans Made	(11,434,029)
Payments to Suppliers	(11,988)
Payments to Employees for Services	<u>(282,465)</u>
Net Cash Provided (Used) by Operating Activities	<u>(9,950,030)</u>
 Cash Flows from Noncapital Financing Activities:	
US EPA Grant Receipts	<u>11,949,006</u>
Net Cash Provided (Used) in Noncapital Financing Activities	<u>11,949,006</u>
 Cash Flows from Investing Activities:	
Interest on Cash & Cash Equivalents	<u>487,389</u>
Net Cash Provided (Used) in Investing Activities	<u>487,389</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	 2,486,365
Cash and Cash Equivalents – Beginning	<u>9,909,513</u>
Cash and Cash Equivalents – Ending	<u>\$ 12,395,878</u>
 Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$ 8,383,159
 Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Interest Income reported as operating revenue	(487,389)
Change in Assets and Liabilities:	
Increase in Grant Income	(8,262,592)
Increase in Accounts Receivable – Federal	(812,465)
Increase in Due to Other Funds	(57,098)
Increase in Interest Receivable	(41,208)
Increase in Loans Receivable	(8,694,348)
Decrease in Accounts Payable & Payroll Payable	(40,461)
Decrease in Due from Other Agencies	52,107
Decrease in Vacation Payable	<u>10,265</u>
Total Adjustments	<u>(18,333,189)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (9,950,030)</u>

These statements are unaudited.

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

Audit Team

Kelly L. Olson, CPA, Audit Manager

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

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The courtesies and cooperation extended by officials and employees of the Department of Human Services during the course of this engagement were commendable and sincerely appreciated.

Auditing to Protect the Public Interest and Improve Oregon Government

