

Report No. 2009-08

March 30, 2009



Drummond Kahn, Interim Director, Audits Division

Kate Brown, Secretary of State

Secretary of State Audit Report

State of Oregon

Applying Agreed-Upon Procedures

**Department of Human Services
Safe Drinking Water Revolving Loan Fund**

For Fiscal Years Ended June 30, 2007 and
June 30, 2008

Office of the Secretary of State

Kate Brown
Secretary of State

Barry Pack
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, 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 (OECDD), Department of Human Services (department) and the Department of Environmental Quality (DEQ). The department prepares the financial statements for DHS and DEQ. The OECDD prepares their own financial statements and provides them to the department for inclusion in the report.

We performed the procedures, as described below, which were agreed to by the 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 years ended June 30, 2007 and 2008, were reported in accordance with generally accepted accounting principles. 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 finding are discussed below.

1. We determined whether the balance sheet and operating statement, excluding note disclosures, 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 no exceptions as a result of this procedure.

3. We agreed account balances on the balance sheet and operating statement to the state's accounting system and ensured they were adequately supported in accordance with GAAP.

We found all account balances agreed to the state's accounting system and were adequately supported. The financial statements, as adjusted, are in accordance with GAAP. We did identify two coding errors. After we brought this to the attention of department management, the department adjusted the financial statements and made a correcting entry in the accounting system.

The department incorrectly charged \$93,550 in expenditures to the Safe Drinking Water Revolving Loan Fund grant during fiscal year 2007. Department management stated the expenditures were related to a separate federal grant and were incorrectly recorded in the state's accounting system. As a result, Grant Income and Technical Assistance Expenditures were overstated. The correcting adjustment created a Due From Other Funds and reduced Accounts Receivable – Federal in the amount stated.

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



Kate Brown
Secretary of State

March 25, 2009

**STATE OF OREGON
SAFE DRINKING WATER REVOLVING LOAN FUND
ENTERPRISE FUND
BALANCE SHEET
JUNE 30, 2007**

	<u>OECD</u>	<u>DHS¹</u>	<u>DEQ</u>	<u>UNAUDITED TOTAL</u>
Assets				
<i>Current Assets:</i>				
Cash and Cash Equivalents	\$ 19,671,779	\$ (1,043,474)	\$ (10,039)	\$ 18,618,266
Interest Receivable	1,237,093	0	0	1,237,093
Accounts Receivable – Federal	0	1,163,488	0	1,163,488
Due from Other Funds	0	93,550	0	93,550
Due from Other Agencies	46,758	0	39,801	86,559
<i>Total Current Assets</i>	<u>20,955,630</u>	<u>213,564</u>	<u>29,762</u>	<u>21,198,956</u>
<i>Noncurrent Assets:</i>				
Loans Receivable, Net	79,884,599	0	0	79,884,599
<i>Total Noncurrent Assets</i>	<u>79,884,559</u>	<u>0</u>	<u>0</u>	<u>79,884,599</u>
Total Assets	<u>\$ 100,840,229</u>	<u>\$ 213,564</u>	<u>\$ 29,762</u>	<u>\$ 101,083,555</u>
Liabilities and Net Assets				
<i>Current Liabilities:</i>				
Accounts Payable	\$ 20,302	\$ 112,235	\$ 656	\$ 133,193
Due to Other Funds	0	101,329	0	101,329
Payroll Payable	0	0	28,081	28,081
Vacation Payable	9,283	0	0	9,283
<i>Total Current Liabilities</i>	<u>29,585</u>	<u>213,564</u>	<u>28,737</u>	<u>271,886</u>
<i>Noncurrent Liabilities:</i>				
Due to Other Funds	\$ 100,000	\$ 0	\$ 1,025	\$ 101,025
Vacation Payable	4,572	0	0	4,572
<i>Total Noncurrent Liabilities</i>	<u>104,572</u>	<u>0</u>	<u>1,025</u>	<u>105,597</u>
Total Liabilities	<u>134,157</u>	<u>213,564</u>	<u>29,762</u>	<u>377,483</u>
Unrestricted Net Assets:	100,706,072	0	0	100,706,072
Total Net Assets	<u>100,706,072</u>	<u>0</u>	<u>0</u>	<u>100,706,072</u>
Total Liabilities and Net Assets	<u>\$ 100,840,229</u>	<u>\$ 213,564</u>	<u>\$ 29,762</u>	<u>\$ 101,083,555</u>

¹ Agreed Upon Procedures Performed only on DHS column

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, 2007

	UNAUDITED			
	<u>OECD</u>	<u>DHS</u> ¹	<u>DEQ</u>	<u>TOTAL</u>
Operating Revenues				
Grant Income	\$ 0	\$ 8,683,399	\$ 0	\$ 8,683,399
Interest Income	2,718,888	0	0	2,718,888
Total Operating Revenues	<u>2,718,888</u>	<u>8,683,399</u>	<u>0</u>	<u>11,402,287</u>
Operating Expenses				
Personal Services	229,016	0	0	229,016
Services and Supplies	23,372	0	0	23,372
Loan Principal Forgiven	8,271	0	0	8,271
Administrative Expenses	0	473,908	0	473,908
Technical Assistance	0	224,061	0	224,061
State Program Management	0	736,894	0	736,894
Local Assistance/Other State Programs:				
Source Water Assessment Program	0	269,496	0	269,496
Implementation of Protection	0	0	481,629	481,629
Implementation of Protection – DEQ	0	126,584	0	126,584
Water System Capacity Program	0	0	0	0
Total Operating Expenses	<u>260,659</u>	<u>1,830,943</u>	<u>481,629</u>	<u>2,573,231</u>
Operating Income (Loss)	2,458,229	6,852,456	(481,629)	8,829,056
State Match	2,406,760	0	0	2,406,760
Transfers Out: to DEQ	0	(481,629)	0	(481,629)
Transfers Out: to OECD	0	(6,370,827)	0	(6,370,827)
Transfers In: From Public Health (DHS)	6,370,827	0	481,629	6,852,456
Change In Net Assets	<u>11,235,816</u>	<u>0</u>	<u>0</u>	<u>11,235,816</u>
Net Assets – Beginning	89,470,256	0	0	89,480,256
Prior Period Adjustment	0	0	0	0
Net Assets – Ending	<u>\$ 100,706,072</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 100,706,072</u>

¹ Agreed Upon Procedures Performed only on DHS column

**STATE OF OREGON
SAFE DRINKING WATER REVOLVING LOAN FUND
ENTERPRISE FUND
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	UNAUDITED
	TOTAL
Cash Flows From Operating Activities:	
Loan Principal Repayments	\$ 2,401,418
Loan Interest Received	1,677,738
Payments to Set-Asides	(2,406,122)
Payments to Employees for Services	(232,362)
Payments to Suppliers	(22,459)
Loans Made	<u>(6,935,284)</u>
Net Cash Provided (Used) by Operating Activities	<u>(5,517,071)</u>
Cash Flows from Noncapital Financing Activities:	
US EPA Grant Receipts	<u>10,845,361</u>
Net Cash Provided (Used) in Noncapital Financing Activities	<u>10,845,361</u>
Cash Flows from Investing Activities:	
Interest on Cash & Cash Equivalents	<u>894,098</u>
Net Cash Provided (Used) in Investing Activities	<u>894,098</u>
Net Increase (Decrease) in Cash and Cash Equivalents	
Cash and Cash Equivalents – Beginning	<u>12,395,878</u>
Cash and Cash Equivalents – Ending	<u>\$ 18,618,266</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$ 8,829,056
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Interest Income on Cash and Cash Equivalents	(894,098)
Grant Income	(8,113,640)
Change in Assets and Liabilities:	
Increase in Assets Rec & Federal	(591,623)
Decrease in Due from Other Agencies	16,508
Increase in Interest Receivable	(147,051)
Increase in Loans Receivable	(4,525,595)
Decrease in Accounts Payable/Payroll Payable	(89,353)
Increase in Due to Other Funds	2,071
Decrease in Vacation Payable	<u>(3,346)</u>
Total Adjustments	<u>(14,346,127)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (5,517,071)</u>

STATE OF OREGON
SAFE DRINKING WATER REVOLVING LOAN FUND
ENTERPRISE FUND
BALANCE SHEET
JUNE 30, 2008

	<u>OECD</u>	<u>DHS¹</u>	<u>DEQ</u>	<u>UNAUDITED</u> <u>TOTAL</u>
Assets				
<i>Current Assets:</i>				
Cash and Cash Equivalents	\$ 26,011,003	\$ (79,769)	\$ (75,633)	\$ 25,855,601
Interest Receivable	1,709,248	0	0	1,709,248
Accounts Receivable – Federal	0	212,154	0	212,154
Due from Other Funds	0	93,550	0	93,550
Due from Other Agencies	54,927	0	118,631	173,558
<i>Total Current Assets</i>	<u>27,775,178</u>	<u>225,935</u>	<u>42,998</u>	<u>28,044,111</u>
<i>Noncurrent Assets:</i>				
Loans Receivable, Net	94,816,979	0	0	94,816,979
<i>Total Noncurrent Assets</i>	<u>94,816,979</u>	<u>0</u>	<u>0</u>	<u>94,816,979</u>
Total Assets	<u>\$ 122,592,157</u>	<u>\$ 225,935</u>	<u>\$ 42,998</u>	<u>\$ 122,861,090</u>
Liabilities and Net Assets				
<i>Current Liabilities:</i>				
Accounts Payable	\$ 27,553	\$ 44,817	\$ 977	\$ 73,347
Payroll Payable	0	0	40,335	40,335
Vacation Payable	8,980	0	0	8,980
Due to Other Funds	0	181,118	0	181,118
<i>Total Current Liabilities</i>	<u>36,533</u>	<u>225,935</u>	<u>41,312</u>	<u>303,780</u>
<i>Noncurrent Liabilities:</i>				
Due to Other Funds	\$ 100,000	\$ 0	\$ 1,686	\$ 101,686
Vacation Payable	4,423	0	0	4,423
<i>Total Noncurrent Liabilities</i>	<u>104,423</u>	<u>0</u>	<u>1,686</u>	<u>106,109</u>
Total Liabilities	<u>140,956</u>	<u>225,935</u>	<u>42,998</u>	<u>409,889</u>
Unrestricted Net Assets:	122,451,201	0	0	122,451,201
Total Net Assets	<u>122,451,201</u>	<u>0</u>	<u>0</u>	<u>122,451,201</u>
Total Liabilities and Net Assets	<u>\$ 122,592,157</u>	<u>\$ 225,935</u>	<u>\$ 42,998</u>	<u>\$ 122,861,090</u>

¹ Agreed Upon Procedures Performed on DHS column only

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, 2008

	<u>OECD</u>	<u>DHS</u> ¹	<u>DEQ</u>	<u>UNAUDITED</u> <u>TOTAL</u>
Operating Revenues				
Grant Income	\$	\$ 18,244,726	\$ 0	\$ 18,244,726
Interest Income	3,253,060		0	3,253,060
Total Operating Revenues	<u>3,253,060</u>	<u>18,244,726</u>	<u>0</u>	<u>21,497,786</u>
Operating Expenses				
Personal Services	244,217	0	0	244,217
Services and Supplies	27,966	0	0	27,966
Administrative Expenses	0	166,520	0	166,520
Technical Assistance	0	302,502	0	302,502
State Program Management	0	394,405	0	394,405
Local Assistance/Other State Programs:				
Source Water Assessment Program	0	0	0	
Implementation of Protection	0	386,252	0	386,252
Implementation of Protection – DEQ	0	0	529,349	529,349
Water System Capacity Program	0	108,246	0	108,246
Total Operating Expenses	<u>272,183</u>	<u>1,357,925</u>	<u>529,349</u>	<u>2,159,457</u>
Operating Income (Loss)	2,980,877	16,886,801	(529,349)	19,338,329
State Match	2,406,800	0	0	2,406,800
Transfers Out: to DEQ	0	(529,349)	0	(529,349)
Transfers Out: to OECD	0	(16,357,452)	0	(16,357,452)
Transfers In: From Pubic Health (DHS)	16,357,452	0	529,349	16,886,801
Change In Net Assets	<u>21,745,129</u>	<u>0</u>	<u>0</u>	<u>21,745,129</u>
Net Assets – Beginning	100,706,072	0	0	100,706,072
Net Assets – Ending	\$ <u>122,451,201</u> \$	<u>0</u> \$	<u>0</u> \$	<u>122,451,201</u>

¹ Agreed Upon Procedures Performed on DHS column only

**STATE OF OREGON
SAFE DRINKING WATER REVOLVING LOAN FUND
ENTERPRISE FUND
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	UNAUDITED
	TOTAL
	<hr/>
Cash Flows From Operating Activities:	
Loan Principal Repayments	\$ 2,633,428
Loan Interest Received	1,717,456
Payments to Set-Asides	(1,887,274)
Payments to Employees for Services	(235,894)
Payments to Suppliers	(29,490)
Loans Made	<u>(17,565,808)</u>
Net Cash Provided (Used) by Operating Activities	<u>(15,367,582)</u>
 Cash Flows from Noncapital Financing Activities:	
US EPA Grant Receipts	<u>21,541,468</u>
Net Cash Provided (Used) in Noncapital Financing Activities	<u>21,541,468</u>
 Cash Flows from Investing Activities:	
Interest on Cash & Cash Equivalents	<u>1,063,449</u>
Net Cash Provided (Used) in Investing Activities	<u>1,063,449</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	7,237,335
Cash and Cash Equivalents – Beginning	<u>18,618,266</u>
Cash and Cash Equivalents – Ending	<u>\$ 25,855,601</u>
 Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$ 19,338,329
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Interest Income reported on Cash and Cash Equivalents	(1,063,449)
Grant Income	(18,786,420)
Change in Assets and Liabilities:	
Decrease in Accounts Receivable – Federal	494,099
Decrease in Due from Other Agencies	86,999
Increase in Interest Receivable	(472,155)
Increase in Loans Receivable	(14,932,380)
Decrease in Accounts Payable/Payroll Payable	47,393
Increase in Due to Other Funds	(80,450)
Decrease in Vacation Payable	<u>452</u>
Total Adjustments	<u>(34,705,911)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (15,367,582)</u>

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

Interim Director	Drummond Kahn, MS, CIA, CGFM, CGAP
Deputy Director	William K. Garber, MPA, CGFM
Deputy Director	Mary E. Wenger, CPA

Audit Team

Kelly L. Olson, CPA, Audit Manager
Michelle L. Rock, CPA, Principal Auditor
Byron Williams, CPA, Senior Auditor

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 audit were commendable and sincerely appreciated.