

Secretary of State Audit Report

Kate Brown, Secretary of State

Gary Blackmer, Director, Audits Division



State of Oregon

Applying Agreed-Upon Procedures

**Oregon Health Authority
Safe Drinking Water Revolving
Loan Fund**

For Fiscal Year Ended June 30, 2011

Office of the Secretary of State

Kate Brown
Secretary of State

Barry Pack
Deputy Secretary of State



Audits Division

Gary Blackmer
Director

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

To the Director and Management of the Oregon Health Authority:

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 Business Development Department (OBDD), Oregon Health Authority (OHA) and the Department of Environmental Quality (DEQ). The OHA prepares the financial statements for OHA and DEQ. The OBDD prepares their own financial statements and provides them to the OHA for inclusion in the report.

We performed the procedures, as described below, which were agreed to by the Oregon Health Authority (agency). The procedures were solely to provide the agency assurance that the agency's set-aside funds, reported as part of the Safe Drinking Water Revolving Loan Fund financial statements for the year ended June 30, 2011, were reported in accordance with generally accepted accounting principles. Agency 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 the results 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 determined the account balances agreed to the accounting system and were adequately supported in accordance with GAAP. However, we identified an internal control deficiency which requires the agency's attention and is included in Attachment A on page 6 of this report.

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 agency and the Environmental Protection Agency 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
June 06, 2012

STATE OF OREGON
SAFE DRINKING WATER REVOLVING LOAN FUND
ENTERPRISE FUND
BALANCE SHEET
June 30, 2011

ASSETS	OBDD	OHA¹	DEQ	Unaudited TOTALS
Current Assets:				
Cash	\$ 44,283,365	\$ (272,691)	\$ (62,213)	\$ 43,948,461
Interest Receivable	2,174,975	-	-	2,174,975
Securities Lending Collateral	13,701,135	-	-	13,701,135
Accounts Receivable - Federal	-	541,285	-	541,285
Due from Other Funds	144,308	-	-	144,308
Due from Other Agencies	-	-	106,369	106,369
Total Current Assets	60,303,783	268,594	44,156	60,616,533
Noncurrent Assets:				
Loans Receivable, Net	145,240,925	-	-	145,240,925
Total Noncurrent Assets:	145,240,925	-	-	145,240,925
Total Assets	\$ 205,544,708	\$ 268,594	\$ 44,156	\$ 205,857,458
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts Payable	\$ 34,812	\$ 17,929	\$ 2,885	\$ 55,626
Securities Lending Collateral	13,701,135	-	-	13,701,135
Payroll Payable	-	-	41,271	41,271
Employee Benefits Payable	20,548	-	-	20,548
Due to Other Funds	-	250,665	-	250,665
Total Current Liabilities	13,756,495	268,594	44,156	14,069,245
Noncurrent Liabilities:				
Due to Other Funds	103,397	-	-	103,397
Vacation Payable--Long Term	10,585	-	-	10,585
Total Noncurrent Liabilities	113,982	-	-	113,982
Total Liabilities	13,870,477	268,594	44,156	14,183,227
Unrestricted Net Assets:	191,674,231	-	-	191,674,231
Total Net Assets	191,674,231	-	-	191,674,231
Total Liabilities and Net Assets	\$ 205,544,708	\$ 268,594	\$ 44,156	\$ 205,857,458

¹ Agreed Upon Procedures Performed only on OHA Column

STATE OF OREGON
SAFE DRINKING WATER REVOLVING LOAN FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>OBDD</u>	<u>OHA</u> ¹	<u>DEQ</u>	<u>Unaudited</u> <u>TOTALS</u>
Operating Revenues:				
Grant Income	\$ -	\$ 40,014,782	\$ -	\$ 40,014,782
Interest Income	3,325,636	-	-	3,325,636
Total Operating Revenues	<u>3,325,636</u>	<u>40,014,782</u>	<u>-</u>	<u>43,340,418</u>
Operating Expenses:				
Personal Services	538,107	-	-	538,107
Services and Supplies	62,677	-	-	62,677
Special Payments	16,361,141	-	-	16,361,141
Administrative Expenses	-	121,445	-	121,445
Technical Assistance	-	205,605	-	205,605
State Program Management	-	854,654	-	854,654
Local Assistance/Other State Programs:				
Implementation of Protection	-	334,327	-	334,327
Water Protection Projects	-	1,530	-	1,530
Implementation of Protection--DEQ	-	-	599,710	599,710
Water System Capacity Program	-	502,706	-	502,706
Total Operating Expenses	<u>16,961,925</u>	<u>2,020,267</u>	<u>599,710</u>	<u>19,581,902</u>
Operating Income (Loss)	(13,636,289)	37,994,515	(599,710)	23,758,516
State Match	2,714,600	-	-	2,714,600
Transfers-out: To DEQ	-	(599,710)	-	(599,710)
Transfers-out: To OBDD	-	(37,394,805)	-	(37,394,805)
Transfers-in: From Public Health	37,394,805	-	599,710	37,994,515
Change in Net Assets	<u>26,473,116</u>	<u>-</u>	<u>-</u>	<u>26,473,116</u>
Net Assets - Beginning	<u>165,201,116</u>	<u>-</u>	<u>-</u>	<u>165,201,116</u>
Net Assets - Ending	<u>\$ 191,674,232</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 191,674,232</u>

¹ Agreed Upon Procedures Performed only on OHA Column

**STATE OF OREGON
SAFE DRINKING WATER REVOLVING LOAN FUND
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>Unaudited</u> <u>TOTALS</u>
Cash Flows From Operating Activities:	
Loan Principal Repayments	\$ 4,441,350
Loan Interest Received	2,587,746
Payments to Employees for Services	(546,178)
Payments to Suppliers	(58,513)
Payments for Program Loans & Special Payments	<u>(39,113,501)</u>
Net Cash Provided (Used) in Operating Activities	<u>(32,689,096)</u>
 Cash Flows from Noncapital Financing Activities:	
US EPA Grant Receipts	37,331,209
Oregon State Match	<u>2,714,600</u>
Net Cash Provided (Used) in Noncapital Financing Activities	<u>40,045,809</u>
 Cash Flow from Investing Activities:	
Interest on Cash and Cash Equivalent Balances	<u>210,881</u>
Net Cash Provided (Used) in Investing Activities	<u>210,881</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	
	7,567,594
Cash and Cash Equivalents-Beginning	<u>36,380,867</u>
Cash and Cash Equivalents - Ending	<u>\$ 43,948,461</u>
 Reconciliation of Operating Income to Net Cash Provided (Used)	
by Operating Activities:	
Operating Income (Loss)	\$ 23,758,516
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used)	
by Operating Activities:	
Interest Income reported on Cash and Cash Equivalents	(210,881)
Increase in Principal Forgiveness on loans	17,202,177
Grant Income	(40,265,448)
Net Changes in Assets and Liabilities:	
Increase in Accounts Receivable Federal	(251,464)
Increase in Interest Receivable	(527,008)
Increase in Loans Receivable	(32,226,324)
Decrease in Accounts Payable/Payroll Payable	(90,078)
Decrease in Due from Other Agencies	<u>(78,586)</u>
Total Adjustments	<u>(56,447,612)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (32,689,096)</u>

Attachment A
Agreed-Upon Procedures
Oregon Health Authority
Safe Drinking Water Revolving Loan Fund

Cash Balance and Grant Accounting Internal Control Deficiency

For three closed Safe Drinking Water grant awards (04, 05, 06), the Oregon Health Authority's (agency) accounting records as of June 30, 2011, do not agree with EPA's final records of expenditures and cash draws for certain set asides.

In prior agreed upon procedures, we communicated to the agency that expenditures exceeded revenues in the accounting records by about \$31,600 for grant awards 04 and 05, causing a negative cash balance. During our audit for fiscal year 2011, we found no action had been taken. Upon inquiry, the agency stated they made corrections in December 2011 to balance the grant awards in the accounting records. We reviewed the entry made by the agency and determined it incorrectly moved revenue drawn related to grant awards 09 and 10 back to grant awards 04, 05 and 06. Although the entry balanced the revenues and expenditures in the accounting records for the old grant awards, it did not agree with federal records. In addition, it unbalanced grant awards 09 and 10 as the accounting records no longer reflected the actual cash drawn from the federal system.

We reconciled the state's accounting records to federal reports, including grant award closing letters and reports from the federal cash system for grant awards 04 through 10 as of June 30, 2011. For current open grant awards (07 through 10), the agency's records of revenue drawn agreed to the federal records and the expenditure differences related to timing differences in requesting cash reimbursement. All remaining differences identified related to grant awards 04, 05 and 06.

We identified two primary causes for these differences. First, about \$28,274 of expenditures were recorded in the accounting records but never reported to the EPA or drawn from the federal cash system. The agency may be allowed to move these expenditures to open grant awards. Second, when reconciling grant awards prior to 04, the agency moved cash and revenue drawn from one grant award to another. As a result, the State Program Management set aside for grant award 04 has \$10,484 less cash and revenue recorded than drawn and the Administration set aside for grant award 06 has \$7,160 more cash and revenue recorded than actually drawn. As these differences impact the cash balance, we concluded that for some grant award prior to 04, the agency never drew \$10,484, and the agency drew \$7,160 more revenue than entitled related to grant awards prior to 04. As complete accounting records are not available for these older grant awards and the agency has stated that grant awards 01 through 03 were reconciled, it is not possible for the agency to be reimbursed by the federal agency for the \$10,484.

As of May 2012, the grant awards have not been reconciled with federal records since award 03 in 2007-2008. Additionally, when preparing the final reports to close grant awards, the agency identified necessary adjustments, but never recorded the adjustments.

Periodic reconciliations should be performed to compare the accounting records to the amounts reported to the federal government and/or to the amounts listed in the federal government's cash draw system. Failure to reconcile the accounting records to the federal records prior to the close of the grant increases the likelihood that the agency will not timely identify differences and obtain all federal funds available to reimburse expenditures.

We recommend agency management:

- Reconcile, at a minimum, the state's accounting records for revenues and expenditures for each set aside with the federal cash reimbursement system when closing a grant award and ensure any adjustments identified are researched and corrected prior to submission of the final report;
- Reverse the accounting entry made in December 2011 that moved revenue from current grant awards to older grant awards;
- Determine whether the \$28,274 in valid expenditures identified for grant awards 04, 05 and 06 can be moved to open grant awards enabling the agency to be reimbursed;
- Obtain state funding for the \$10,484 of expenditures incurred at some point in time but never drawn to cover the cash expended; and
- Return \$7,160 in federal revenue/cash currently recorded in grant award 06 to the EPA.

Office of the Director

John A. Kitzhaber, MD, Governor

June 12, 2012



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Gary Blackmer, Director
Oregon Audits Division
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Salem, OR 97310

RE: Oregon Health Authority's Response to the *Safe Drinking Water Revolving Loan Fund Financial Statements Agreed-Upon Procedures* Draft Report

Dear Mr. Blackmer:

Thank you for the opportunity to respond to the *Safe Drinking Water Revolving Loan Fund Financial Statements Agreed-Upon Procedures* draft report. We appreciate the time and effort this review required of your staff. The Oregon Health Authority (OHA) agrees with the recommendations made in the draft report as discussed below.

Recommendations:

We recommend agency management:

- Reconcile, at a minimum, the state's accounting records for revenues and expenditures for each set aside with the federal cash reimbursement system when closing a grant award and ensure any adjustments identified are researched and corrected prior to submission of the final report;
- Reverse the accounting entry made in December 2011 that moved revenue from current grant awards to older grant awards;
- Determine whether the \$28,274 in valid expenditures identified for grant awards 04, 05 and 06 can be moved to open grant awards enabling the agency to be reimbursed;
- Obtain state funding for the \$10,484 of expenditures incurred at some point in time but never drawn to cover the cash expended; and
- Return \$7,160 in federal revenue/cash currently recorded in grant award 06 to the U.S. Environmental Protection Agency (EPA).

Agency Response:

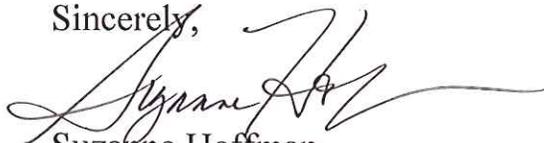
The Oregon Health Authority agrees with the recommendations.

We agree that when closing a grant or phase that the grant revenue and expenses must be reconciled and adjustments must be made in a timely manner. As soon as all invoices have been received and funds drawn, a reconciliation should be completed to ensure the original federal financial report requires no adjustments and the expenses and revenues entered in the Statewide Financial Management Application (SFMA) are in balance. In the future the agency will also make every effort to have all program invoices processed within 90 days of the grant closing, reducing the potential risks of having to submit revised federal financial reports.

The Oregon Health Authority will research the impact of moving the identified \$28,274 revenue and its impact on phases 04, 05 and 06. These phases are closed, but there may be outstanding adjustments requiring resubmission of final reports. After we finalize phases 04, 05 and 06 we will contact the EPA requesting their direction as to the final disposition of the \$7,160 currently recorded in grant award 06. The Office of Financial Services will also work with the program to determine the appropriate adjustment of the \$10,484.

Thank you again for the opportunity to address the recommendations included in the draft report. Please feel free to contact Shawn Jacobsen, Controller for DHS and OHA or Dave Lyda, Chief Audit Officer for DHS and OHA, if you have any questions regarding this response.

Sincerely,



Suzanne Hoffman,
Chief Operating Officer

cc: Bruce Goldberg, OHA Director
Kelly R. Ballas, OHA Chief Financial Officer
William Coulombe, OHA Budget Director
Dave Leland, Drinking Water Program Manager
Shawn Jacobsen, Controller, DHS and OHA
Dave Lyda, Chief Audit Officer, DHS and OHA

About the Secretary of State Audits Division

The Oregon Constitution provides that the Secretary of State shall be, by virtue of her 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.

Audit Team

Kelly L. Olson, CPA, Audit Manager

Geoff M. Hill, CPA, Principal Auditor

Austin R. Moore, Staff 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 Oregon Health Authority during the course of this audit were commendable and sincerely appreciated.