

# Secretary of State Audit Report

Kate Brown, Secretary of State

Gary Blackmer, Director, Audits Division



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State of Oregon

Applying Agreed-Upon Procedures

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

For Fiscal Year Ended June 30, 2012

**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, 2012, 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 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 identified the following errors, for which the agency adjusted the financial statements.

At the end of each fiscal year, the agency prepares and records year-end accruals at the entity-wide level. When preparing the financial statements for the Safe Drinking Water program, the agency reviews the accruals and makes any necessary adjustments to ensure the financial statements comply with GAAP. We identified the following errors related to the financial statement adjustments:

- The agency incorrectly accrued an additional \$241,586 in expenditures and related federal revenues due to an error in reviewing an adjustment.
- The agency did not reverse an adjustment made in the prior fiscal year.

We recommend the department continue to refine their financial reporting process to accurately adjust the Safe Drinking Water financial statements to comply with GAAP.

Additionally, we reviewed the agency's response to the internal control deficiency identified in the prior year's report. We determined the agency had taken partial action to address the deficiency; the matter is discussed in further detail, along with the agency's response to the current year finding, at the end of the 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 U.S. 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

May 22, 2013

**STATE OF OREGON  
OBDD, OHA, DEQ  
SAFE DRINKING WATER REVOLVING LOAN FUND  
BALANCE SHEET  
June 30, 2012**

<b>ASSETS</b>	<b><u>OBDD</u></b>	<b><u>OHA</u><sup>1</sup></b>	<b><u>DEQ</u></b>	<b><u>TOTAL</u></b>
<i>Current Assets:</i>				
Cash	\$ 45,027,778	\$(494,124)	\$(132,049)	\$ 44,401,605
Interest Receivable	2,962,074	-	-	2,962,074
Securities Lending Collateral	5,301,331	-	-	5,301,331
Assets Rec Federal	-	842,795	-	842,795
Due from Other Funds/Agencies	62,300	-	179,371	241,671
<b>Total Current Assets</b>	<b>53,353,483</b>	<b>348,671</b>	<b>47,322</b>	<b>53,749,476</b>
<i>Noncurrent Assets:</i>				
Loans Receivable, Net	165,979,143	-	-	165,979,143
<b>Total Noncurrent Assets:</b>	<b>165,979,143</b>	<b>-</b>	<b>-</b>	<b>165,979,143</b>
<b>Total Assets</b>	<b>\$219,332,626</b>	<b>\$ 348,671</b>	<b>\$ 47,322</b>	<b>\$ 219,728,619</b>
 <b>LIABILITIES AND NET ASSETS</b>				
<i>Current Liabilities:</i>				
Accounts Payable	\$ 24,331	\$ 105,405	\$ 1,700	\$ 131,436
Securities Lending Collateral	5,301,331	-	-	5,301,331
Payroll Payable	-	-	45,590	45,590
Employee Benefits Payable	16,865	-	-	16,865
Due to Other Funds/agencies	-	243,266	32	243,298
<b>Total Current Liabilities</b>	<b>5,342,527</b>	<b>348,671</b>	<b>47,322</b>	<b>5,738,520</b>
<i>Noncurrent Liabilities:</i>				
Due to Other Funds	104,201	-	-	104,201
Vacation Payable--Long Term	8,688	-	-	8,688
<b>Total Noncurrent Liabilities</b>	<b>112,889</b>	<b>-</b>	<b>-</b>	<b>112,889</b>
<b>Total Liabilities</b>	<b>5,455,416</b>	<b>348,671</b>	<b>47,322</b>	<b>5,851,409</b>
Unrestricted Net Assets:	213,877,210	-	-	213,877,210
<b>Total Net Assets</b>	<b>213,877,210</b>	<b>-</b>	<b>-</b>	<b>213,877,210</b>
<b>Total Liabilities and Net Assets</b>	<b>\$219,332,626</b>	<b>\$ 348,671</b>	<b>\$ 47,322</b>	<b>\$219,728,619</b>

<sup>1</sup> Agreed Upon procedures performed only on OHA column

**STATE OF OREGON  
OBDD, OHA, DEQ  
SAFE DRINKING WATER REVOLVING LOAN FUND  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>OBDD</u>	<u>OHA<sup>1</sup></u>	<u>DEQ</u>	<u>TOTAL</u>
<b>Operating Revenues:</b>				
Grant Income	\$ -	\$ 23,843,168	\$ -	\$ 23,843,168
Interest Income	4,055,019	-	-	4,055,019
Total Operating Revenues	<u>4,055,019</u>	<u>23,843,168</u>	<u>-</u>	<u>27,898,187</u>
<b>Operating Expenses:</b>				
Personal Services	379,345	-	-	379,345
Services and Supplies	40,128	-	-	40,128
Special Payments	4,572,922	-	-	4,572,922
Administrative Expenses	-	397,747	-	397,747
Technical Assistance	-	186,057	-	186,057
State Program Management	-	1,271,477	-	1,271,477
Local Assistance/Other State Programs:				
Implementation of Protection	-	767,338	-	767,338
Implementation of Protection--DEQ	-	-	634,530	634,530
Water System Capacity Program	-	256,064	-	256,064
Total Operating Expenses	<u>4,992,395</u>	<u>2,878,683</u>	<u>634,530</u>	<u>8,505,608</u>
<b>Operating Income (Loss)</b>	(937,376)	20,964,485	(634,530)	19,392,579
State Match	2,810,400	-	-	2,810,400
Transfers-out: To DEQ	-	(634,530)	-	(634,530)
Transfers-out: To OBDD	-	(20,329,955)	-	(20,329,955)
Transfers-in: From Public Health	20,329,955	-	634,530	20,964,485
Change in Net Assets	<u>22,202,979</u>	<u>-</u>	<u>-</u>	<u>22,202,979</u>
<b>Net Assets - Beginning</b>	191,674,231	-	-	191,674,231
<b>Net Assets - Ending</b>	<u>\$ 213,877,210</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 213,877,210</u>

<sup>1</sup> Agreed Upon Procedures performed only on OHA column

**STATE OF OREGON**  
**OBDD, OHA, DEQ**  
**SAFE DRINKING WATER REVOLVING LOAN FUND**  
**STATEMENT OF CASH FLOWS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**Cash Flows From Operating Activities:**

Loan Principal Repayments	\$ 5,188,369
Loan Interest Received	3,018,479
Payments to Employees for Services	(804,352)
Payments to Suppliers	(44,885)
Payments for Program Loans and Special Payments	<u>(34,050,634)</u>
Net Cash Provided (Used) in Operating Activities	<u>(26,693,023)</u>

**Cash Flows from Noncapital Financing Activities:**

US EPA Grant Receipts	24,086,326
Oregon State Match	<u>2,810,400</u>
Net Cash Provided (Used) in Noncapital Financing Activities	<u>26,896,726</u>

**Cash Flow from Investing Activities:**

Interest on Cash and Cash Equivalent Balances	<u>249,441</u>
Net Cash Provided (Used) in Investing Activities	<u>249,441</u>

Net Increase (Decrease) in Cash and Cash Equivalents	453,144
Cash and Cash Equivalents-Beginning	<u>43,948,461</u>
Cash and Cash Equivalents - Ending	<u>\$ 44,401,605</u>

**Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:**

Operating Income (Loss)	\$ 19,392,579
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Grant Income	(24,267,336)
Interest from Oregon State Treasury	(249,441)
Increase in Interest Receivable	(787,099)
Increase in Accounts Payable	(18,744,855)
Decrease in Allowance for Principal Forgiveness	(2,584,644)
Decrease In Employee Benefits Payable Vacation Payable	(5,901)
Decrease in Accts Rec-Federal	544,668
Decrease in Due to other funds	<u>9,006</u>
Total Adjustments	<u>(46,085,602)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (26,693,023)</u>

## Appendix A - Prior Year Internal Control Deficiency

In the agreed upon procedures report for the fiscal year ended June 30, 2011, we reported an internal control deficiency relating to grant accounting. Specifically, we found the accounting records for grant awards 04, 05, and 06 did not agree to the U.S. Environmental Protection Agency's final records of expenditures and cash draws for certain set asides. (See Audit Report 2012-19 for the full text of the audit finding).

We recommended 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 to 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.

During the current engagement, we performed procedures to follow up on the prior year's internal control deficiency and noted that partial corrective action had been taken to address the recommendations. The agency completed reconciliations for grant phases 04, 05, and 06 and identified the same discrepancies and reversed the accounting entry in April 2013. The agency initiated contact with the Environmental Protection Agency in May 2013 to address the last three recommendations, but has not yet reached a resolution with the Environmental Protection Agency.

*Agency Response:*

*The agency's response is attached at the end of the report.*

May 17, 2013

Gary Blackmer, Director  
Oregon Audits Division  
255 Capital Street N.E., Suite 500  
Salem, OR 97310

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

Dear Mr. Blackmer:

Thank you for the opportunity to respond to the State of Oregon - Oregon Health Authority Safe Drinking Water Revolving Loan Fund Financial Statements Agreed-Upon Procedures report. We appreciate the time and effort this review required of your staff. The Oregon Health Authority (OHA) agrees with the recommendation made in the draft report as discussed below. We also have provided comments on the follow up from the prior year's recommendations addressed in the appendix.

**Recommendation:**

We recommend the department continue to refine their financial reporting process to accurately adjust the Safe Drinking Water financial statements to comply with Generally Accepted Accounting Principles.

**Agency Response:**

The Oregon Health Authority agrees with the recommendation.

In this reporting period \$241,586 of additional expenditures and federal revenue were incorrectly accrued on the paper financial statements. A review process has been put in place to double check the paper financial statement adjustments made to accruals in the future.

We agree that the prior year's accruals were not properly reversed. A review process has been put in place to double check paper financial statement entries including accruals in the future.

**Follow up on Prior Year Recommendations:**

During the current engagement, we performed procedures to follow up on the prior year's internal control deficiency and noted that partial corrective action had been taken to address the recommendations. The agency completed reconciliations for grant phases 04, 05, and 06 and identified the same discrepancies and reversed the accounting entry in April 2013. The agency initiated contact with the Environmental Protection Agency in May 2013 to address the last

three recommendations, but has not yet reached a resolution with the Environmental Protection Agency.

**Agency Response:**

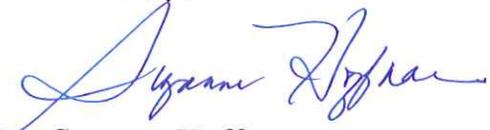
During the interim period the Office of Financial Services completed a reconciliation of the accounting records for each set aside to the federal cash reimbursement system (ASAP). The following entries will be made to the state's accounting system to ensure there is a complete match with the U.S. Environmental Protection Agency draw accounts in ASAP. These entries will not result in any modification to the closed Federal Financial Reports (FFR) nor result in any federal draws against closed grants in ASAP.

The state's accounting system showed excess revenues in the loan fund for grant year 2004 of \$287,258.02 and the Admin set-aside in grant year 2006 showed excess revenue/expenses of \$7,160.44. We did an adjustment to move \$283,022.82 to Local set-aside in grant year 2005 and \$10,495.64 to State Program Management in grant year 2004 in order to align with the federal system and reports. After this adjustment there will be an excess of \$900 that is due to the U.S. EPA. A letter has been sent to the U.S. EPA which outlines these adjustments and requests process to return excess \$900 due to the U.S EPA.

Once the entries are made the state's accounting system will be a complete match with the U.S. EPA draw accounts in ASAP and the reported FFRs for grant years 2004, 2005 and 2006.

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, M.D., OHA Director  
Kelly R. Ballas, OHA Chief Financial Officer  
William Coulombe, OHA Budget Director  
Anthony Fields, Manager, Protection and Certification Unit, Drinking Water Program  
Dave Leland, Interim Administrator, Center for Health Protection  
Shawn Jacobsen, Controller, DHS and OHA  
Dave Lyda, Chief Audit Officer, DHS and OHA

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## 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.

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### Audit Team

Kelly L. Olson, CPA, Audit Manager

Geoff M. Hill, CPA, Principal Auditor

Austin R. Moore, Staff Auditor

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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>

phone: 503-986-2255

mail: Oregon Audits Division  
255 Capitol Street NE, Suite 500  
Salem, OR 97310

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.