



Auditing for a Better Oregon

January 16, 2004

Marty Brantley, Director
Oregon Economic and Community Development Department
775 Summer Street, NE, Suite 200
Salem, Oregon 97301-1280

Jean Thorne, Director
Department of Human Services
500 Summer Street NE E15
Salem, Oregon 97301-1097

Dear Mr. Brantley and Ms. Thorne:

The statewide single audit that included selected federal awards at Department of Human Services and Oregon Economics and Community Development Department (collectively, the department) for the year ended June 30, 2003, has been completed.

This statewide single audit work is not a comprehensive audit of your federal awards. Instead, this single audit permits us to report on the state's internal control and the state's compliance with laws, regulations, and the provisions of contracts or grant agreements which could have a direct and material effect on each major federal program. Regular audits of both departments will continue on a periodic basis.

We determined whether the department substantially complied with the federal requirements relevant to the following federal program.

<u>CFDA Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
66.468	Safe Drinking Water Program	\$22,647,768

Based on our audit, we identified two reportable conditions needing corrective action and four other conditions. Our findings and recommendations are presented in the enclosed Audit Findings and Recommendations Summary accompanying this letter.

The reportable conditions, along with your responses, will be included in our statewide audit report. Including your responses with responses from other state agencies satisfies the federal requirement that
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management prepare a Corrective Action Plan (CAP) covering all reported audit findings. Satisfying the federal requirement in this manner, however, can only be accomplished if the response to each finding includes the information specified by the federal requirement, and only if the responses are received in time to be included in the audit report. The following information is required for each response.

1. Your agreement or disagreement with the finding. If you do not agree with an audit finding or believe corrective action is not required, include in your response an explanation and specific reasons for your position.
2. The corrective action planned.
3. The anticipated completion date.
4. The name(s) of the contact person(s) responsible for corrective action.

The other conditions are issues of lesser significance that we wanted to communicate to agency management. These conditions do not require a Corrective Action Plan. We will follow up on each department's progress in addressing these issues during the next fiscal year audit.

For the reportable conditions, we must receive your written responses by January 30, 2004 for them to be included in the final audit report.

Should you have any questions, feel free to contact Debbie Ferguson or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Nancy L. Young, CPA, CISA
Audit Administrator

NLY:brk

cc: Barry Kast, Deputy Director, DHS Health Services
David Leland, Drinking Water Program Manager, DHS Health Services
Dave Baker, Fiscal Manager, DHS Health Services
Cynthia Scheick, Internal Auditor, DHS
Sherry Sheng, Deputy Director, OECDD
Tom Nelson, Public Finance Office, OECDD
Janet Rafalovich, Fiscal Manager, OECDD

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Sarah Garrison, Capital Projects Division Manger, OECDD
Johnny Alexander, Internal Auditor, OECDD
Gary Weeks, Director, Department of Administrative Services

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Audit Findings and Recommendations Summary
Oregon Economics and Community Development Department and
Department of Human Services
Safe Drinking Water Program
State Fiscal Year 2003

REPORTABLE CONDITIONS

The following conditions need corrective action.

(1.) State Match

Federal Regulations require states to deposit 20 percent matching funds from state monies into the Safe Drinking Water Revolving Loan Fund on or before the date that Federal funds are made available through grant payments. The department provided documentation illustrating that an additional \$2,491,760 in state monies needed to be deposited to comply with this requirement as of June 30, 2003.

We recommend that the department deposit funds into the revolving fund to meet the 20 percent match requirement and develop a match deposit schedule with documented procedures for updating the schedule upon receipt of each new grant agreement.

(2.) Environmental Review

Federal Regulations require states to adhere to an approved State Environmental Review Process (SERP). The Department's SERP requires an environmental review be performed for Safe Drinking Water projects prior to being allowed to proceed with loan-funded project work. Upon our review of the three newly funded Fiscal Year 2003 (FY03) projects subject to this requirement, we found that for one of these projects, a proper Environmental Review was not completed until six months after construction had already begun.

Even though the state eventually assessed that there would be no significant impact from project activities, the Environmental Review requirement was not met.

We recommend that the department strengthen policies and procedure to ensure that environmental reviews are completed prior to loan-funded project work beginning.

OTHER CONDITIONS

During our audit we noted the following conditions of lesser significance that we want to communicate to the department management.

- (1.) During a review of Drinking Water Administrative Set-aside revenues and expenditures, auditors noted that the amount of administrative expenditures reported on the draft fiscal year 2003 Safe Drinking Water Program Annual Report was overstated by \$71,617. Reported expenses included actual expenses incurred by DHS, but included transfers of revenue to OECDD for the OECDD portion of incurred expenses. The report should reflect *actual* expenses incurred by both agencies as follows:

Agency	Draft Report	Expenditures per SFMA	Change
DHS	\$143,129	\$143,129	\$0
OECDD	464,530	392,913	(\$71,617)
Total	\$607,660	\$536,043	(\$71,617)

- (2.) OECDD did not accrue \$67,107 of administrative revenue received during FY03 for expenses incurred during FY02. Reimbursement-based revenues should be recorded in the period in which underlying expenses were incurred.
- (3.) It appears that DHS has not accrued \$17,790 in revenue received during FY03 for expenses incurred during FY02. Reimbursement-based revenues should be recorded in the period in which underlying expenses were incurred.
- (4.) DHS is currently filing the SF-272 Federal Transactions report on a semi-annual basis. OMB 110.52 requires this report to be filed quarterly unless the Federal Entity formally communicates that it may be reported on a different schedule. DHS was unable to provide evidence of a formal exception to this requirement.

We recommend that the department make the appropriate adjustments to the FY03 Safe Drinking Water Annual Report.

We recommend that the department make the appropriate adjustments to the State Financial Management Application.

We recommend that the department file the SF-272 report on a quarterly basis **or** obtain required documentation from Environmental Protection Agency for an exception to this requirement.