



Auditing for a Better Oregon

April 21, 2005

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

Dear Mr. Brantley:

We have completed our financial statement audit of the Oregon Economic and Community Development Department (department) Special Public Works Fund (SPWF) and Water Fund (WF) bond programs for the fiscal year ended June 30, 2004. During our audit, we did not identify any reportable conditions related to internal control or to noncompliance with applicable laws and regulations. Professional auditing standards define reportable conditions as matters relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect your ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. We did identify the following issues that we determined were not reportable conditions, but did require management's attention. We previously met with department management to discuss these issues.

Project Monitoring

SPWF provides financial assistance to municipalities for infrastructure and community facilities projects. To assist SPWF loan applicants and department project coordinators, the department has developed a project management handbook defining program requirements. The handbook states, "during the project, the department will monitor each recipient for compliance with the award contract." The handbook directs monitoring visits be timed to coincide with the various phases of each project.

We reviewed 12 randomly selected SPWF projects that were completed or near completion during fiscal year 2004 to determine whether projects complied with rules governing funding limits and contained required documents to comply with the department's project management handbook. We identified one instance in which a physical onsite monitoring inspection had not occurred and the project was complete. Department management should ensure that required onsite monitoring inspections occur in a timely manner to identify potential problem areas in time to ensure project success and assure state monies are not wasted or used for fraudulent purposes.

Management Letter No. 123-2005-04-01

We recommend the department conduct a physical onsite monitoring inspection of the project to ensure that the project meets agreed upon contract specifications.

Bond Call Premiums

The department computes loan holder prepayment premiums when a bond is called. The accountants determine if a premium is due by reviewing the "Optional Redemption" schedule disclosed in the loan holder agreement. Premiums are calculated based on the rates indicated in the schedule. A letter is sent to the loan holder outlining the principal, interest, and premium amounts due.

We reviewed prepayment letters for five of seven loans prepaid during fiscal year 2004. We identified two prepayment premiums that were incorrectly calculated, as the premium percentages used did not agree to the loan agreements. As a result, a WF loan holder was undercharged \$4,256 and a SPWF loan holder was overcharged \$1,955. We also noted that prepayment premiums documented in the loan holder agreements did not always agree to those documented in the bond official statements.

We recommend the department ensure the prepayment premium percentages agree to respective loan holder agreements. We recommend department management implement review procedures to ensure the premium calculations are accurate. We further recommend the department consider returning the noted overpayment and collecting the noted underpayment.

We will follow up on the department's progress in addressing these issues during our audit of fiscal year 2005 SPWF and WF financial statements. Should you have any questions, please contact me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Kelly L. Olson, CPA
Audit Manager

KLO:bk

cc: Lin Rigutto, Fiscal Services Manager
Michael Burton, Community Development Division Manager
Laurie Warner, Acting Director, Department of Administrative Services