

Office of the Secretary of State
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February 8, 2007

Stephanie Hallock, Director
Oregon Department of Environmental Quality
811 SW 6th Avenue
Portland, Oregon 97204

Dear Ms. Hallock:

The statewide single audit that included selected federal awards at the Department of Environmental Quality (department) for the year ended June 30, 2006, 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 that could have a direct and material effect on each major federal program. Regular audits of the department 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>
66.458	Capitalization Grants for Clean Water State Revolving Funds	\$32,871,815

Based on our audit, we identified the following conditions in need of corrective action.

Untimely Loan Payments

The Clean Water State Revolving Fund (CWSRF) Loan Program provides loans to public agencies for the planning, design and construction of various water pollution control activities. Federal regulations require that annual repayment of principal and interest for these loans begin not later than one year after the projects are completed. We reviewed documentation for 17 projects for which initial loan principal and interest payments should have been received by July 2006. Of the 17 projects reviewed, six of the project's initial principal payments were received later than one year after project completion. For three of these six projects, the recipient did submit an interest only payment within one year of the project completion.

We recommend department management ensure payments of loan principal and interest for CWSRF loans begin not later than one year after project completion.

Lack of Public Notice Documentation

Federal regulations indicate that environmental reviews should include notice to the public of proposed projects, the opportunity to comment on project alternatives, and the opportunity to examine environmental review documents. Clean Water State Revolving Fund (CWSRF) project applicants are usually required to prepare an environmental review before a loan can be issued. The extent of the environmental review depends on the nature of the project, and is not always required. If an environmental review is required, the loan applicant must notify the public of the project. We found the department does not have adequate documentation of public notice and review opportunities. Of the six projects reviewed that required subrecipients to provide public notice, five projects did not contain adequate documentation.

In addition, CWSRF loan applicants must also prepare a series of exhibits with the applications, including a project-planning document, which may consist of a full wastewater facilities plan, feasibility study or predesign report. The operating agreement between the department and the Environmental Protection Agency require that project documents be kept in a project file maintained by the department. We reviewed 11 new 2006 loans for evidence of a project-planning document and found one instance in which the department was unable to locate the necessary documentation.

We recommend department management ensure required environmental review procedures, including notice to the public of proposed projects, are followed. Additionally, management should ensure that all necessary documentation is retained in project files for the duration of the loan process.

The reportable conditions, along with your responses, will be included in our Statewide Single Audit report for the year ended June 30, 2006. Including your responses with responses from other state agencies satisfies the federal requirement that management prepare a Corrective Action Plan (CAP) covering all reported audit findings. Satisfying the federal requirement in this manner, however, can be accomplished only 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.

For the reportable conditions, we must receive your written responses by February 20, 2007 for them to be included in the final audit report.

Stephanie Hallock, Director
Oregon Department of Environmental Quality
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Should you have any questions, please contact Diane Farris or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Kelly L. Olson, CPA
Audit Manager

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cc: René-Marc Mangin, Management Services Division Administrator
Larry McAllister, Clean Water State Revolving Fund Coordinator
Rick Watters, Clean Water State Revolving Fund Accountant
Lindsay Ball, Director, Department of Administrative Services