

Office of the Secretary of State

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February 19, 2009

Dick Pedersen, Director
Department of Environmental Quality
811 SW 6th Avenue
Portland, OR 97204

Dear Mr. Pedersen:

We have completed audit work of selected financial accounts at the Department of Environmental Quality (department) and federal compliance requirements relevant to the Capitalization Grants for Clean Water State Revolving Funds for the year ended June 30, 2008.

This audit work is not a comprehensive audit of the department. Instead, the audit work performed allowed us, in part, to achieve the following objectives: (1) express an opinion on whether the financial statements contained in the State of Oregon's Comprehensive Annual Financial Report were fairly presented, in all material respects, in conformity with generally accepted accounting principles; (2) determine whether the state's internal controls provided reasonable assurance of proper accounting, financial reporting, and legal compliance of transactions; (3) determine whether the state has complied with applicable legal requirements that may have a direct and material effect on the state's financial statements; (4) determine whether the state has complied with laws, regulations, contracts or grants that could have a direct and material effect on each major federal program; and (5) obtain an understanding of the state's internal controls over compliance with the laws, regulations, contracts and grants applicable to federal programs.

We audited the following accounts and transactions at the department to determine their fair presentation in accordance with generally accepted accounting principles in relation to the statewide financial statements.

SFMA Account	Description	Audit Amount Debit (Credit)
<u>GAAP Fund 1107 – Special Revenue Fund: Environmental Management:</u>		
0065	Unreconciled Deposit	\$ 546,095
0070	Cash on Deposit with Treasurer	95,140,607
0931	Loans Receivable	386,556,011
2998	Reserved for Loans Receivable	(386,556,011)

SFMA Account	Description	Debit (Credit)
<u>GAAP Fund 1107 – Special Revenue Fund: Environmental Management:</u>		
0212	Other Business Licenses and Fees	(20,329,505)
0228	Other Nonbusiness Licenses and Fees	(13,959,658)
0300	Federal Revenue	(16,012,383)
3111	Regular Employees	32,399,691
3221	Social Security Taxes	2,536,265
3263	Medical, Dental, Life Insurance	6,790,743
4xxx	Various Services and Supplies	19,603,885

We also audited the following federal program at the department to determine whether the department substantially complied with the federal requirements relevant to the federal program. Our audit does not provide a legal determination of the department’s compliance with the federal requirements relevant to this federal program.

CFDA Number	Program Name	Audit Amount
66.458	Capitalization Grants for Clean Water State Revolving Funds	\$ 1,849,500

In planning and performing our audit of the selected financial accounts at the department in accordance with auditing standards generally accepted in the United States of America, we considered the department’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements of the State of Oregon but not for the purpose of expressing an opinion on the effectiveness of the department’s internal control. Accordingly, we do not express an opinion on the effectiveness of the department’s internal control.

We considered the department’s internal control over compliance with the federal requirements that could have a direct and material effect on the Capitalization Grants for Clean Water State Revolving Funds, in accordance with the OMB Circular A-133, in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the department’s internal control over compliance.

Our consideration of internal control was for the limited purpose described in the preceding paragraphs and would not necessarily identify all deficiencies in the department’s internal control. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. As discussed below, we identified a control deficiency that management should consider for improving internal controls.

Cash Receipting Controls Could be Improved

The Oregon Accounting Manual (OAM) provides procedures to assist agencies in designing internal controls to minimize the opportunity for misappropriation of cash. Those procedures include having two people open the mail, create a cash receipts log, and restrictively endorse the checks. The department's cash receipting process does not follow the above procedures. Consequently, the department's controls could be improved to help minimize the risk of misappropriation of cash.

We recommend department management review, implement and maintain controls over cash receipting to ensure the opportunity for misappropriation of cash is minimized.

This matter does not require a written response. We will follow up on the department's progress in addressing this matter during the next fiscal year audit.

Prior Year Uncorrected Findings

In the prior fiscal year, a material weakness was reported to you in a letter dated February 27, 2008, related to the department's lack of environmental review and public notice documentation, and adherence to department procedures. This finding can also be found in the Statewide Single Audit Report for the fiscal year ended June 30, 2007; see Secretary of State Audit Report number 2008-03, finding number 07-21. During the current fiscal year, the department made progress in correcting this finding. This finding will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2008, with a status of partial corrective action taken.

This communication is intended solely for the information and use of management, others within the department, the Environmental Quality Commission, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Should you have any questions, please contact David Terry or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Julianne Kennedy, CPA
Audit Manager

JK:brk

cc: Kerri Nelson, Administrator, Management Services Division
Dolores Passarelle, Accounting Manager
Bill Blosser, Chair, Environmental Quality Commission
Scott Harra, Director, Department of Administrative Services