

Office of the Secretary of State

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January 19, 2010

Victor Merced, Director
Oregon Housing and Community Services Department
725 Summer Street NE, Suite B
Salem, Oregon 97301-1266

Dear Mr. Merced:

We have completed our financial statement audit at Oregon Housing and Community Services Department (department) for the year ended June 30, 2009.

The objectives of the audit were as follows: (1) express an opinion on whether the department's financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles; (2) determine whether the department's internal controls provide reasonable assurance of proper accounting, financial reporting, and legal compliance of transactions; and (3) determine whether the department has complied with applicable legal requirements that may have a direct and material effect on the department's financial statements. The objectives do not include providing opinions on internal control over financial reporting or on compliance with laws, regulations, and provisions of contracts or grant agreements. The audit included limited procedures on the required supplementary information accompanying the basic financial statements, but we did not issue an opinion on the required supplementary information.

In planning and performing our audit of the financial statements of the department as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the department's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control. As discussed below, we identified an other matter that management should consider for improving internal controls.

Lack of Internal Controls Over Valuation of Swaps

The department has entered into eleven separate pay-fixed, receive-variable interest rate swaps to lower borrowing costs compared to fixed-rate bonds. The department's management relies on an external organization, Public Financial Management Group (PFM), to determine the fair value of its swap transactions. Department management is responsible for ensuring the fair value, as reported in the financial statements, of the department's swap transactions is reasonable. Department management, however, has not designed and placed in operation internal control procedures to ensure PFM's valuation of the department's swap transactions is reasonable. The lack of internal controls over the valuation of the swap transactions increases the risk of not preventing or detecting a misstatement in a timely fashion.

We recommend department management design and implement procedures to review the valuation provided by PFM to ensure the amount reported in the financial statements is reasonable.

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.

This communication is intended solely for the information and use of management, others within the organization, and the Oregon State Housing Council and is not intended to be and should not be used by anyone other than the specified parties.

We would like to express our appreciation to your staff for their assistance and cooperation during the conduct of the audit. Should you have any questions, please contact Nicole Rollins or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Julianne Kennedy, CPA
Audit Manager

JK:NMR:jas

cc: Rick Crager, Deputy Director
Nancy Cain, Chief Financial Officer
Margaret McDowell, Chief Audit Executive
Maggie LaMont, Chair of the Oregon State Housing Council
Scott Harra, Director, Department of Administrative Services