

Office of the Secretary of State

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Secretary of State

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Deputy Secretary of State



Audits Division

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January 18, 2011

Tom Byler, Executive Director  
Oregon Watershed Enhancement Board  
775 Summer Street NE, Suite 360  
Salem, Oregon 97301

Dear Mr. Byler:

We have completed audit work of selected financial accounts at the Oregon Watershed Enhancement Board (department) for the year ended June 30, 2010.

This audit work was not a comprehensive audit of the department. We performed this audit work as part of our annual statewide financial audit. The objective of the statewide audit was to 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.

In planning and performing our audit of the selected financial accounts at the department as of and for the year ended June 30, 2010, 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 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 audited the following accounts at the department and determined their fair presentation in accordance with generally accepted accounting principles in relation to the statewide financial statements.

<u>SFMA Account</u>	<u>Description</u>	<u>Audit Amount</u>
<u>GAAP Fund 1107 – Environmental Management Fund</u>		
0300	Federal Revenue	\$ 9,663,664

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Other Matter**

We identified the following other matter that is an opportunity to strengthen internal controls but is not considered to be a significant deficiency or a material weakness. This other matter does not require a written response from management.

#### **The Risk Assessment Process Should Be Strengthened to Address Changes in Generally Accepted Accounting Principles (GAAP)**

Management has an established process for identifying risks to the department. This process enables management to take a proactive approach to address areas of risk, including risks associated with financial reporting. Despite management's efforts, the process did not identify a recent change in GAAP (i.e. GASB Statement 51: Accounting and Financial Reporting for Intangible Assets) requiring the capitalization of land conservation easements and water rights acquired during the fiscal year.

**We recommend** department management develop procedures to ensure the proper reporting of intangible assets, and strengthen its risk assessment process to identify and timely implement changes in GAAP.

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

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We would like to express our appreciation to Cindy Silbernagel, Dave Nelson, and their staff for their assistance during this audit. Should you have any questions, please contact Alan Bell or me at (503) 986-2255.

Sincerely,  
OREGON AUDITS DIVISION

Julianne Kennedy, CPA  
Audit Manager

JK:AJB:nmj

cc: Ken Bierly, Deputy Director  
Cindy Silbernagel, Fiscal Manager  
Dan Heagerty, Co-Chair  
Dan Thorndike, Co-Chair  
Kris Kautz, Acting Director, Department of Administrative Services