

Office of the Secretary of State

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Audits Division

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February 13, 2012

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

Dear Mr. Pedersen:

We have completed audit work of a selected federal program at the Department of Environmental Quality (department) for the year ended June 30, 2011.

This audit work was not a comprehensive audit of your federal program. We performed this audit work as part of our annual statewide single audit. The audit work performed allowed us, in part, to achieve the following objectives: (1) determine whether the department has complied with laws, regulations, contracts or grants that could have a direct and material effect on the selected federal program and (2) determine whether the department has effective internal controls over compliance with the laws, regulations, contracts and grants applicable to the selected federal program. We audited the following federal program at the department to determine whether the department substantially complied with the federal requirements relevant to the federal program.

CFDA Number	Program Name	Audit Amount
66.458	Capitalization Grants for Clean Water State Revolving Funds	\$21,760,465
66.458	Capitalization Grants for Clean Water State Revolving Funds – ARRA	\$20,466,415

In planning and performing our audit, we considered the department's internal control over compliance with requirements that could have a direct and material effect on the major federal program to determine the auditing procedures for the purpose of expressing our opinion on the department's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of

compliance requirement of the federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This communication is intended solely for the information and use of management, the Environmental Quality Commission, others within the organization, 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.

We would like to express our appreciation to Rick Watters and the rest of the DEQ staff for their assistance and cooperation during this audit. Should you have any questions, please contact Jason Butler or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Julianne Kennedy, CPA
Audit Manager

cc: Joni Hammond, Deputy Director
Kerri Nelson, Management Services Division Administrator
Jim Roys, Financial Services Manager
Maggie Vandehey, Audit Committee Member
Bill Blosser, Chair of the Environmental Quality Commission
Gerold Floyd, Director of Recovery Act Management
Michael J. Jordan, Director, Department of Administrative Services