

**Office of the Secretary of State**

Kate Brown  
Secretary of State

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Deputy Secretary of State



**Audits Division**

Gary Blackmer  
Director

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January 9, 2013

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

Dear Mr. Pedersen:

We have completed audit work of selected financial accounts at the Department of Environmental Quality (department) for the year ended June 30, 2012.

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, 2012, 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>		
0065	Unreconciled Deposit	\$ 441,431
0070	Cash on Deposit with Treasurer	201,085,381
0931	Loans Receivable	411,451,695
0936	Allowance for Uncollectible-NC-Loan Rec	5,469,493
0212	Other Business Licenses and Fees	26,738,891

<u>SFMA Account</u>	<u>Description</u>	<u>Audit Amount</u>
0228	Other Nonbusiness Licenses and Fees	\$ 13,006,337
0300	Federal Revenue	18,804,735
0355	Federal Revenue as Other Funds	14,427,650
3111	Regular Employees	34,539,758
3210	Public Employees Retirement Contribution	5,295,962
3212	Pension Bond Assessment	2,162,741
3221	Social Security Taxes	2,635,318
3263	Medical, Dental, Life Insurance	8,297,202

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.

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.

This communication is intended solely for the information and use of management, others within the organization, and the Environmental Quality Commission 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 Richard Lawrence, Rick Watters and department staff for their assistance and cooperation during the 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

JK:JAB:nmj

cc: Bill Blosser, Chair, Environmental Quality Commission  
Kerri Nelson, Management Services Division Administrator  
James Roys, Financial Services Manager  
Richard Lawrence, Revenue Manager  
Maggie Vandehey, Audit Committee Member  
Michael J. Jordan, Director, Department of Administrative Services