

Office of the Secretary of State

Kate Brown
Secretary of State

Brian Shipley
Deputy Secretary of State



Audits Division

Gary Blackmer
Director

255 Capitol St. NE, Suite 500
Salem, OR 97310

(503) 986-2255
fax (503) 378-6767

January 7, 2013

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 (board) for the year ended June 30, 2012.

This audit work was not a comprehensive audit of the board. 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 board 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 board'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 board's internal control. Accordingly, we do not express an opinion on the effectiveness of the board's internal control.

We audited the following accounts at the board 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>		
0070	Cash on Deposit with Treasurer	\$43,763,707
0300	Federal Revenue	12,516,755
6xxx	Special Payments	34,261,520
13xx	Transfers In	47,078,243
18xx	Transfers Out	6,150,815

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.

Special Payment Expenditure Accruals

Generally, governmental funds accrue expenditures and related liabilities in the fiscal year in which the government incurs the liability. The Oregon Accounting Manual refers to a 90 day accrual period; state agencies are to estimate and accrue expenditures that are to be paid within 90-days of the fiscal year end. Board management has not developed a methodology to estimate and accrue special payment expenditures for grant reimbursements processed within 90-days of the fiscal year end. Management has a method to account for expenditures processed up to month 13 close, but does not estimate expenditures after the close and before September 30. We tested a sample of special payments processed in this time period and found that many related to fiscal year 2012. While our results did not indicate a significant misstatement for fiscal year 2012, there is a potential for a significant misstatement to occur without an adequate accrual methodology in place.

We recommend board management develop a methodology to estimate special payment expenditures incurred and paid within 90-days of fiscal year end and determine whether an accrual is necessary.

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.

Tom Byler, Executive Director
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We appreciate your staff's assistance and cooperation 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: Meta Loftsgaarden, Deputy Director
Cindy Silbernagel, Fiscal Manager
Dan Thorndike, Co-Chair
Eric Quaempts, Co-Chair
Sandra Todd, Fiscal Manager, Water Resources Department
Michael J. Jordan, Director, Department of Administrative Services