

Secretary of State Audit Report

Jeanne P. Atkins, Secretary of State

Gary Blackmer, Director, Audits Division



State of Oregon

Applying Agreed-Upon Procedures

Oregon Health Authority
Safe Drinking Water Revolving
Loan Fund

For Fiscal Year Ended June 30, 2014

Office of the Secretary of State

Jeanne P. Atkins
Secretary of State

Robert Taylor
Deputy Secretary of State



Audits Division

Gary Blackmer
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**Independent Accountant's Report
On Applying Agreed-Upon Procedures**

To the Director and Management of the Oregon Health Authority:

As required by the U.S. Environmental Protection Agency, the State of Oregon submits financial statements for the Safe Drinking Water Revolving Loan Fund. Oregon's financial statements include three agencies: Oregon Business Development Department (OBDD), Oregon Health Authority (OHA), and the Department of Environmental Quality (DEQ).

We performed the procedures, as described below, which were agreed to by the Oregon Health Authority (agency). No procedures were performed related to OBDD or DEQ information. The procedures were solely to provide the agency assurance that the agency's set-aside funds, reported as part of the Safe Drinking Water Revolving Loan Fund financial statements for the year ended June 30, 2014, were reported in accordance with generally accepted accounting principles. Agency management is responsible for preparing the financial statements and any required supplementary information, maintaining adequate accounting records, and selecting and applying appropriate accounting standards. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and generally accepted government auditing standards. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below.

The procedures performed and the results are discussed below.

1. We determined whether the balance sheet and operating statement, excluding note disclosures, were mathematically accurate and prepared in accordance with generally accepted accounting principles (GAAP).

We found no exceptions as a result of this procedure.

2. We determined whether the statement of cash flows was mathematically accurate and prepared in the format required by GAAP. We did not review the details of the line items.

We found no exceptions as a result of this procedure.

3. We determined that account balances on the balance sheet and operating statement were derived from the state's accounting system and were adequately supported in accordance with GAAP.

We found all account balances agreed to the state's accounting system and were adequately supported. The financial statements, as adjusted, are in accordance with GAAP. We identified various errors in the agency's year-end adjustments made only for financial reporting purposes; see Appendix A for more detail. The agency corrected these issues in the attached financial statements. During our testing, we also identified grant accounting issues related to the program; see Appendix A for more detail

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the financial statements. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. This report is intended solely for the information and use of the agency and the U.S. Environmental Protection Agency and is not intended to be and should not be used by anyone other than the specified parties.

Office of the Secretary of State, Audits Division

State of Oregon
July 28, 2015

**STATE OF OREGON
OBDD, OHA, DEQ
SAFE DRINKING WATER REVOLVING LOAN FUND
BALANCE SHEET
JUNE 30, 2014**

	OBDD	OHA ¹	DEQ	TOTAL
ASSETS				
<i>Current Assets:</i>				
Cash	\$ 71,074,210	\$ (1,709,861)	\$ (114,299)	\$ 69,250,050
Interest Receivable	2,274,246	-	-	2,274,246
Securities Lending Collateral	4,637,012	-	-	4,637,012
Accounts Receivable - Federal	-	2,435,578	-	2,435,578
Due From Other Fund	357,208	-	155,794	513,002
<i>Total Current Assets</i>	<u>78,342,676</u>	<u>725,717</u>	<u>41,495</u>	<u>79,109,888</u>
<i>Noncurrent Assets:</i>				
Loans Receivable, Net	164,785,742	-	-	164,785,742
<i>Total Noncurrent Assets</i>	<u>164,785,742</u>	<u>-</u>	<u>-</u>	<u>164,785,742</u>
Total Assets	<u>243,128,418</u>	<u>725,717</u>	<u>41,495</u>	<u>243,895,630</u>
LIABILITIES AND NET POSITION				
<i>Current Liabilities:</i>				
Accounts Payable	17,032	142,796	750	160,578
Securities Lending Collateral	4,637,012	-	-	4,637,012
Payroll Payable	-	-	40,860	40,860
Employee Benefits Payable	1,400	-	-	1,400
Due to Other Funds	-	582,921	(115)	582,806
Vacation Payable	15,388	-	-	15,388
<i>Total Current Liabilities</i>	<u>4,670,832</u>	<u>725,717</u>	<u>41,495</u>	<u>5,438,044</u>
<i>Noncurrent Liabilities:</i>				
Due to Other Funds	5,519	-	-	5,519
Vacation Payable	7,928	-	-	7,928
Pension Related Debt	53,096	-	-	53,096
<i>Total Noncurrent Liabilities</i>	<u>66,543</u>	<u>-</u>	<u>-</u>	<u>66,543</u>
Total Liabilities	<u>4,737,375</u>	<u>725,717</u>	<u>41,495</u>	<u>5,504,587</u>
Unrestricted Net Position	238,391,043	-	-	238,391,043
Total Net Position	<u>238,391,043</u>	<u>-</u>	<u>-</u>	<u>238,391,043</u>
Total Liabilities and Net Position	<u>\$243,128,418</u>	<u>\$ 725,717</u>	<u>\$ 41,495</u>	<u>\$ 243,895,630</u>

¹ Agreed upon procedures performed only on OHA column

STATE OF OREGON
OBDD, OHA, DEQ
SAFE DRINKING WATER REVOLVING LOAN FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	OBDD	OHA ¹	DEQ	TOTAL
Operating Revenues:				
Grant Income	\$ -	\$ 8,939,044	\$ -	\$ 8,939,044
Interest Income	4,209,161	-	-	4,209,161
Total Operating Revenues	4,209,161	8,939,044	-	13,148,205
Operating Expenses:				
Personal Services	325,069	-	-	325,069
Services and Supplies	19,613	-	-	19,613
Special Payments	2,270,297	-	-	2,270,297
Administrative Expenses	-	163,600	-	163,600
Technical Assistance	-	207,418	-	207,418
State Program Management	-	1,583,368	-	1,583,368
Local Assistance/Other State Programs:				
Implementation of Protection	-	398,143	-	398,143
Implementation of Protection – DEQ	-	-	608,865	608,865
Water System Capacity Program	-	569,795	-	569,795
Total Operating Expenses	2,614,979	2,922,324	608,865	6,146,168
Operating Income (Loss)	1,594,182	6,016,720	(608,865)	7,002,037
State Match	6,295,200	-	-	6,295,200
Transfers-out to DEQ	-	(608,865)	-	(608,865)
Transfers-out to OBDD	-	(5,407,855)	-	(5,407,855)
Transfers-out to Other Fund	(14,945)	-	-	(14,945)
Transfers in from Public Health	5,407,855	-	608,865	6,016,720
Change in Net Position	13,282,292	-	-	13,282,292
Net Position - Beginning	225,108,751	-	-	225,108,751
Net Position - Ending	\$238,391,043	\$ -	\$ -	\$238,391,043

¹ Agreed upon procedures performed only on OHA column

**STATE OF OREGON
OBDD, OHA, DEQ
SAFE DRINKING WATER REVOLVING LOAN FUND
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	TOTAL¹
Cash Flows From Operating Activities:	
Loan Principal Repayments	\$ 6,883,148
Loan Interest Received	4,356,213
Payments to Employees for Services	(331,517)
Payments to Suppliers	146,230
Collection of Grant Revenue	7,242,466
Special Payments	(11,182,916)
Other Payments	(3,531,189)
Net Cash Provided (Used) in Operating Activities	3,582,435
Cash Flows from Noncapital Financing Activities:	
US EPA Grant Receipts	5,763,721
Oregon State Match	6,295,200
Transfers Out	(5,711,444)
Net Cash Provided (Used) in Noncapital Financing Activities	6,347,477
Net Increase (Decrease) in Cash and Cash Equivalents	9,929,912
Cash and Cash Equivalents-Beginning	59,320,138
Cash and Cash Equivalents - Ending	\$ 69,250,050
 Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$ 7,002,037
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Increase (Decrease) in Accounts Payable	165,843
Increase (Decrease) in Employee Benefits Payable Vacation Payable	(6,448)
Decrease (Increase) in Interest Receivable	147,052
Decrease (Increase) in Loans Receivable	(2,029,471)
Decrease (Increase) in Accounts Receivable – Federal	(1,696,578)
Total Adjustments	(3,419,602)
Net Cash Provided (Used) by Operating Activities	\$ 3,582,435

¹ No audit of accuracy of line items was performed

Appendix A

Improve Financial Reporting

At the end of each fiscal year, the agency prepares and records year-end accruals and compiles the Safe Drinking Water Loan Revolving Fund financial statements. When preparing the financial statements, the agency reviews the accruals in the accounting records and makes any necessary adjustments to ensure each set-aside is accurate and the financial statements comply with GAAP. If the agency is aware of any other accounting issues related to the program, the agency will also make correcting entries for financial reporting purposes.

To address financing reporting findings identified in the past three fiscal years, the agency made improvements to the financial reporting process of the program. The agency employed staff with knowledge of financial reporting who established and implemented detailed procedures for preparing the financial statements. However, due to formula errors and other oversights, we identified errors related to the financial statement adjustments. These errors would have been identified if a review of the financial statements and adjustments was performed by a person with experience and knowledge of financial reporting.

Although the formula errors caused misclassifications between set-aside expenditures, the total expenditures were accurate. Other entry errors caused an understatement of accounts payable of \$206,707, an understatement of account receivable federal of \$275,932, and an understatement of due to other funds of \$69,225.

We recommend the agency continue to refine their financial reporting process by having a person with experience and knowledge of financial reporting conduct a review of the adjustments prepared for financial reporting purposes.

Improve Grant Accounting

Federal regulations require states to maintain separate and identifiable accounts for the portion of the grant to be used for set-aside activities. Within the state's accounting system (SFMA), the expenditures are coded to grant award and set-aside funds. When federal cash is drawn, the draw should agree to the expenditure coding. During our audit we noted the following errors, which did not impact the financial statements:

- As of June 30, 2014, the federal cash draw system (ASAP) and the revenues recorded in SFMA agreed in total but did not reconcile by grant award and set-aside. The initial discrepancy was caused by the agency drawing from incorrect grant awards/set-asides and the entry in SFMA did not match the actual draw. During the year, the agency made several entries to correct the errors but not all errors were corrected by the time of our review.

- The agency recorded two transfer entries to the wrong set-aside. Although the financial statement amount was accurate, these errors resulted in incorrect coding to the set-aside funds of \$40,491.
- A duplicate payment of \$55,219 was made to Oregon Business Development Department that was returned to the agency. Due to the agency's process for requesting federal cash draws to reimburse OBDD, the agency did not reduce future draws to return the funds to EPA at the time the duplicate payment was made. Upon inquiry, the agency stated it is in the process of reducing current cash draws to return the funds.

We recommend agency management ensure proper coding of revenues and expenditures to the correct grant phase and set aside fund. Additionally, agency management should ensure that ASAP and SFMA are reconciled on a regular basis to ensure proper accounting of funds.

Agency Response:

The agency's response is attached at the end of the report.



DIRECTOR'S OFFICE

Kate Brown, Governor

Oregon
Health
Authority

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www.oregon.gov/oha

July 27, 2015

Gary Blackmer, Director
Oregon Audits Division
255 Capital Street N.E., Suite 500
Salem, OR 97310

RE: Oregon Health Authority's Response to the State of Oregon Safe Drinking Water Revolving Loan Fund Financial Statements Agreed-Upon Procedures Report

Dear Mr. Blackmer:

Thank you for the opportunity to respond to the State of Oregon - Oregon Health Authority Safe Drinking Water Revolving Loan Fund Financial Statements Agreed-Upon Procedures report. We appreciate the time and effort this review required of your staff. The Oregon Health Authority (OHA) agrees with the recommendations made in Appendix A of the draft report as discussed below.

Recommendation:

We recommend the agency continue to refine their financial reporting process by having a person with experience and knowledge of financial reporting conduct a review of the adjustments prepared for financial reporting purposes.

Agency Response:

The Oregon Health Authority agrees with the recommendation. We are pleased that our efforts have improved the financial reporting process. We will continue our process improvement efforts including providing additional training for our reviewers.

Recommendation:

We recommend agency management ensure proper coding of revenues and expenditures to the correct grant phase and set aside fund. Additionally, agency management should ensure that ASAP and SFMA are reconciled on a regular basis to ensure proper accounting of funds.

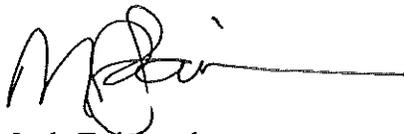
Agency Response:

The Oregon Health Authority agrees with the recommendation. We have established a quarterly reconciliation process between ASAP and SFMA. The reconciliation will ensure the draws and each set aside match and if necessary, adjustments/book entries are done in a timely manner.

Gary Blackmer
Oregon Audits Division
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Thank you again for the opportunity to address the recommendations included in the draft report. Please feel free to contact Shawn Jacobsen, Controller for DHS and OHA or Dave Lyda, Chief Audit Officer for DHS and OHA, if you have any questions regarding this response.

Sincerely,

A handwritten signature in black ink, appearing to read 'Mark Fairbanks', with a long horizontal line extending to the right.

Mark Fairbanks,
Chief Financial Officer

cc: Lynne Saxton, OHA Director
William Coulombe, OHA Budget Director
Lillian Shirley, State Public Health Director
Steven Wagner, Administrator, Center for Health Protection
Dave Leland, Manager, Drinking Water Services
Shawn Jacobsen, Controller, DHS and OHA
Dave Lyda, Chief Audit Officer, DHS and OHA

About the Secretary of State Audits Division

The Oregon Constitution provides that the Secretary of State shall be, by virtue of her office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of other agencies within the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

Audit Team

Kelly L. Olson, CPA, Audit Manager

Michelle Rock, CPA, Principal Auditor

Patrick O'Larey, Staff Auditor

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The courtesies and cooperation extended by officials and employees of the Oregon Health Authority during the course of this engagement were commendable and sincerely appreciated.