Secretary of State Audit Report

Jeanne Atkins, Secretary of State

Mary Wenger, Interim 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, 2015

2016-13
June 2016

http://sos.oregon.gov/audits

Office of the Secretary of State

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Deputy Secretary of State

Audits Division

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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, 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 federal set-aside funds, reported as part of the Safe Drinking Water Revolving Loan Fund financial statements for the year ended June 30, 2015, 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 objectives of our engagement and the results are discussed below. The procedures performed to achieve these objectives are documented in the engagement letter dated March 9, 2016.

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 the procedures performed.

2. We determined whether the statement of cash flows was mathematically accurate, and was consistent with the formats currently required by GAAP. We did not review the details of the line items.

   We found no exceptions as a result of the procedures performed.

3. We determined that financial accounts 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 an error in the agency's year-end adjustments that are made only for financial reporting purposes; see Appendix A for more detail. The agency corrected this issue in the attached financial statements.

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
May 27, 2016

STATE OF OREGON
OBDD, OHA, DEQ
SAFE DRINKING WATER REVOLVING LOAN FUND
BALANCE SHEET
JUNE 30, 2015

	OBDD	OHA[1]	DEQ	TOTAL
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Current Assets:				
Cash	$ 78,107,316	$ (241,249)	$ (70,138)	$ 77,795,929
Interest Receivable	2,447,583	-	-	2,447,583
Securities Lending Collateral	4,608,397	-	-	4,608,397
Accounts Receivable - Federal	-	629,981	-	629,981
Due From Other Fund	151,219	-	115,279	266,498
Total Current Assets	85,314,515	388,732	45,141	85,748,388
Noncurrent Assets:				
Net Pension Asset	44,438	-	-	44,438
Loans Receivable, Net	162,947,944	-	-	162,947,944
Total Noncurrent Assets	162,992,382	-	-	162,992,382
Deferred Outflows of Resources:				
Related to Pensions	16,447	-	-	16,447
Total Assets and Deferred Outflows	248,323,344	388,732	45,141	248,757,217
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION				
Current Liabilities:				
Accounts Payable	18,744	120,740	2,596	142,080
Securities Lending Collateral	4,608,397	-	-	4,608,397
Payroll Payable	-	-	42,545	42,545
Employee Benefits Payable	2,000	-	-	2,000
Due to Other Funds	2	267,992	-	267,994
Vacation Payable	14,803	-	-	14,803
Total Current Liabilities	4,643,946	388,732	45,141	5,077,819
Noncurrent Liabilities:				
Due to Other Funds	5,776	-	-	5,776
Vacation Payable	7,625	-	-	7,625
Pension Related Debt	50,186	-	-	50,186
Total Noncurrent Liabilities	63,587	-	-	63,587
Deferred Inflows of Resources:				
Related to Pensions	85,747	-	-	85,747
Total Liabilities and Deferred Inflows	4,793,280	388,732	45,141	5,227,153
Unrestricted Net Position	243,530,064	-	-	243,530,064
Total Net Position	243,530,064	-	-	243,530,064
Total Liabilities, Deferred Inflows and Net Position	$ 248,323,344	$ 388,732	$ 45,141	$ 248,757,217

[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, 2015

	OBDD	OHA[1]	DEQ	TOTAL
Operating Revenues:				
Grant Income	$ -	$ 6,333,297	$ -	$ 6,333,297
Interest Income	4,360,636	-	-	4,360,636
Total Operating Revenues	4,360,636	6,333,297	-	10,693,933
Operating Expenses:				
Personal Services	230,780	-	-	230,780
Services and Supplies	7,504	-	-	7,504
Special Payments	2,630,093	-	-	2,630,093
Administrative Expenses	-	177,789	-	177,789
Technical Assistance	-	284,655	-	284,655
State Program Management	-	844,789	-	844,789
Local Assistance/Other State Programs:				
Implementation of Protection	-	374,662	-	374,662
Implementation of Protection – DEQ	-	-	646,869	646,869
Water System Capacity Program	-	263,452	-	263,452
Total Operating Expenses	2,868,377	1,945,347	646,869	5,460,593
Operating Income (Loss)	1, 492,259	4,387,950	(646,869)	5,233,340
Transfers-out to DEQ	-	(646,869)	-	(646,869)
Transfers-out to OBDD	-	(3,741,081)	-	(3,741,081)
Transfers-out to Other Fund	(13,456)	-	-	(13,456)
Transfers in from Public Health	3,741,081	-	646,869	4,387,950
Change in Net Position	5,219,884	-	-	5,219,884
Net Position - Beginning	238,391,043	-	-	238,391,043
Prior Period Adjustments	(80,863)	-	-	(80,863)
Net Position - Ending	$243,530,064	$ -	$ -	$243,530,064

[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, 2015

		TOTAL[1]
Cash Flows From Operating Activities:		
Loan Principal Repayments	$	7,497,621
Loan Interest Received		4,187,299
Payments to Employees for Services		(232,293)
Payments to Suppliers		(26,002)
Collection of Grant Revenue		8,138,894
Special Payments		(8,289,917)
Other Payments		(2,673,079)
Net Cash Provided (Used) in Operating Activities		8,602,523
Cash Flows from Noncapital Financing Activities:		
US EPA Grant Receipts		4,634,454
Transfers Out		(4,691,098)
Net Cash Provided (Used) in Noncapital Financing Activities		(56,644)
Net Increase (Decrease) in Cash and Cash Equivalents		8,545,879
Cash and Cash Equivalents-Beginning		69,250,050
Cash and Cash Equivalents - Ending	$	77,795,929

Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	$	5,233,340
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Increase (Decrease) in Accounts Payable		(18,498)
Increase (Decrease) in Employee Benefits Payable and Vacation Payable		(1,513)
Decrease (Increase) in Interest Receivable		(173,337)
Decrease (Increase) in Loans Receivable		1,837,798
Decrease (Increase) in Accounts Receivable – Federal		1,805,597
Prior Period Adjustments		(80,864)
Total Adjustments		3,369,183
Net Cash Provided (Used) by Operating Activities	$	8,602,523

[1] No audit of accuracy of line items was performed

Appendix A

Improve Financial Reporting

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.

After June 30, as part of its grant monitoring, the agency reclassified federal expenditures to state grants as the expenditures exceeded the federal awards. The agency identified these adjustments when preparing the financial statements. However, the agency did not accurately reflect the change for financial reporting purposes. As a result, cash and accounts payable were understated by $932,471 and $275,059, respectively. In addition, due from other funds and due to other funds were overstated by $672,869 and $15,456, respectively. These errors should have been identified if a review of the financial statements and adjustments was performed by a person with experience and knowledge of financial reporting.

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.

DIRECTOR'S OFFICE
Kate Brown, Governor

Oregon Health Authority

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June 21, 2016

Mary Wenger, Interim 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 Ms. Wenger:

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 for Fiscal Year ended June 30, 2015. We appreciate the time and effort this review required of your staff. The Oregon Health Authority (OHA) agrees with the recommendation 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. Our review process includes having a person with experience and knowledge of financial reporting review adjustments. We will continue refining our process to ensure that these adjustments are not overlooked in the future.

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,

Mark Fairbanks,
Chief Financial Officer

cc: Lynne Saxton, Director
Lillian Shirley, State Public Health Director
Jere High, 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

Alan J. Bell, MBA, CFE, Principal Auditor

Katie Hull, Staff Auditor

This report, a public record, is intended to promote the best possible management of public resources. Copies may be obtained from:

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mail: Oregon Audits Division
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Salem, OR 97310

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.