



SB 616 Community Housing Trust Account Investigation

Introduction

The Oregon Legislative Assembly passed Senate Bill 616 (SB616) during the 2015 Regular Session. SB616 requires the Secretary of State to conduct an investigation of the Community Housing Trust Account within the Developmental Disabilities Community Housing Fund. The bill further directs the State Treasurer to develop and make recommendations for an investment strategy to maximize interest and income to the account. This is our report to interim committees of the Legislative Assembly regarding the results of our investigation and the State Treasurer's proposed investment strategy.

The objective of our investigation was to determine the status of assets in the account, including findings regarding the following:

- The amount and date of deposit of any proceeds from the sale, transfer or lease of any state training center, defined in ORS 427.345 as any facility that is an intermediate care facility for the mentally disabled;
- How proceeds from the sale, transfer, or lease of any state training center have been applied or disbursed to or from the account; and
- How earnings on the account have been credited or expended by the department.

Background

The 1999 Legislative Assembly established the Community Housing Trust Account (Trust Account) to receive proceeds from the sale, transfer, or lease of any surplus real property owned, operated or controlled by the Department of Human Services (department) and used as a state training center.

Oregon statutes require at least 95% of all sale or transfer proceeds to remain in the account in perpetuity; however, unless otherwise restricted, the monies in the 95% account may be used as authorized by the Legislature. Up to 5% of any sale or transfer proceeds credited to the account and interest earnings credited to the account may be spent by the department for specific purposes. The department spends monies from the account on projects necessary to ensure the health, welfare, and safety of an individual in their home or enable an individual to function with greater independence in their home. The department separately tracks the 95% proceeds from the 5% proceeds and interest earnings to ensure spending is done with appropriate resources.

Results

The first activity in the Trust Account was the sale of the Fairview Training Center, which sold in 2003 for about \$15.1 million. The exact amount of all sale proceeds deposited into the Trust Account is not known because of the age of the information; generally, state financial records have only a 6-year retention period. At least \$15 million of sale proceeds and interest earnings were deposited into the account since it was established. Other than deposits, no transactions occurred in the 95% account, or corpus, until December 2012, when the department transferred \$6.9 million to the General Fund for Medicaid grant match. This transfer was approved during the 2011 Regular Session when the Legislature passed the department's budget bill.

Most Trust Account activity occurred in the 5% account, including deposits of interest earnings and expenditures for program services. Interest earnings since the account opened were approximately \$2.1 million. The department's Aging and People with Disabilities unit uses this 5% account to provide grants to clients to help them live as independently as possible in their homes. The department has spent at least \$2 million on program services and administrative costs.

Status of Assets

We confirmed with the Oregon State Treasury that the accounts' combined cash balance was \$6,065,743 as of January 22, 2016. This amount agreed to the department's records in the state accounting system. The breakdown between the 95% and 5% accounts is:

Account	Balance
95%	\$5,112,741
5%	953,002
Total	\$6,065,743

Transaction activity in the corpus (95% account)

The sale of the Fairview Training Center in 2003 provided the corpus of the Trust Account. The department received the proceeds from the sale in at least three payments spread over several years. We verified in the state accounting system the date and amount of the 2010 deposit and, using a tracking sheet the department provided, estimated deposits prior to 2010.

In the 2015 Regular Session, the Legislature passed Senate Bill 671, which provided for the Department of Administrative Services to transfer a portion of the former Eastern Oregon Training Center site to the City of Pendleton. Related to the transfer, a deposit of \$92,500, representing the fair value of the property, was deposited into the Trust Account on January 15, 2016.

A single disbursement of \$6,950,134 occurred in this account in December 2012. This was the result of the 2011 Legislative Assembly passing House Bill 5030, the department's budget bill, which transferred funds from the Trust Account to the General Fund for a Medicaid grant match to continue program services for individuals with developmental disabilities and their families. No other disbursements have been made from this account since 2012.

Transactions	Amount
Deposits prior to July 2005	\$ 7,164,256
August 2006 deposit	\$ 4,640,089
March 2010 deposit	\$ 166,030
January 2016 deposit	\$ 92,500
Total Deposits	\$12,062,875
Transfer to General Fund December 2012	\$ (6,950,134)
Balance January 22, 2016	\$ 5,112,741

Transaction activity in the 5% account

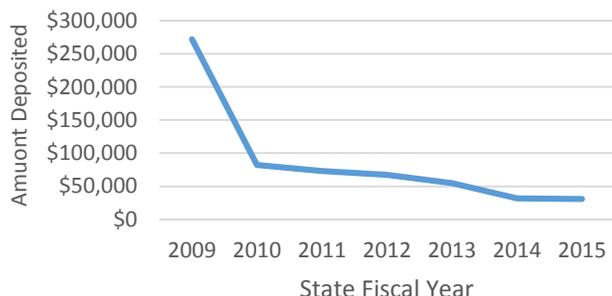
The transaction activity of the 5% account was not easily determined due to records not being available prior to July 2008. Using information from the state accounting system and the department, we reconstructed the activity in the account to reach the balance of the 5% account at January 22, 2016, which Oregon State Treasury confirmed was \$953,002. More deposits and expenditures than those shown below may have occurred.

The sale of the Fairview Training Center in 2003 provided proceeds and future interest earnings. We verified in the state accounting system the date and amount of the 2010 deposit of proceeds and interest earnings from July 1, 2008 through January 22, 2016. Using a tracking sheet the department provided, we estimated deposits of proceeds and interest earnings prior to July 2008.

Deposit	Amount
Balance July 2005	\$ 582,213
August 2006 proceeds deposit	244,215
March 2010 proceeds deposit	8,738
Interest earnings July 2005 to June 2008	1,517,242
Interest earnings July 2008 to December 2015	628,858
Total deposits	\$ 2,981,266
Estimated expenditures	(2,028,264)
Balance January 22, 2016	\$ 953,002

Interest earnings credited to the account from 2009 are reflected in Figure 1, which shows a steady decline. Based on the department's tracking sheet, the average annualized interest rate declined from 2.05% in fiscal year 2009 to 0.52% in fiscal year 2015.

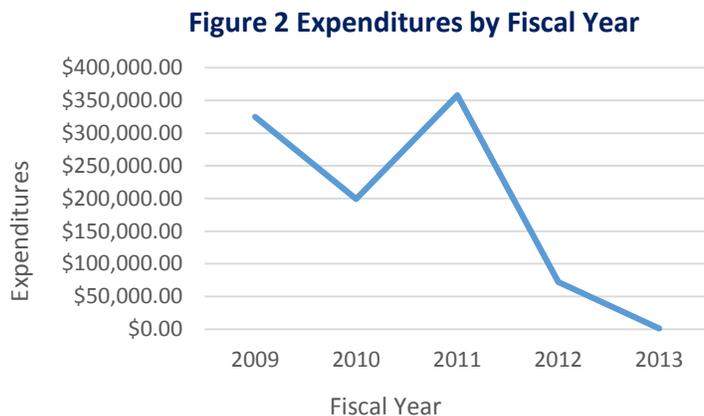
Figure 1 Interest Earnings by Fiscal Year



The department's Aging and People with Disabilities unit uses the 5% account to provide grants to clients in five basic project types: bath modifications, home modifications, fencing, technology equipment, and therapy equipment. Since the account opened, the department has spent at least \$2 million for program services and administrative costs. Information and supporting documentation was available for transactions recorded in the state accounting system from July 1, 2008 through June 30, 2013. We reviewed \$955,865 the department spent for program services. Of that amount, \$810,493 was spent on behalf of 212 clients. Some of the transactions were paid for with the department's procurement cards, which are tracked in a different manner than transactions paid for through the state accounting system. As a result, we were unable to determine the number of clients served for \$145,372 that was spent. We were, however, able to identify project types for most of the expenditures reviewed. The following table reflects the total amount spent from July 1, 2008 through June 30, 2013 by project type.

Expenditures by Project Type	
July 1, 2008 through June 30, 2013	
Bath modifications	\$366,393
Home Modifications	337,926
Fencing	161,801
Unknown	50,189
Technology Equipment	33,127
Therapy Equipment	6,429
Total	\$955,865

Figure 2 reflects the total expenditures by fiscal year and shows a considerable decline from 2011. The decline is most likely due to the decrease in interest earnings after the \$6,950,134 transfer from the Trust Account to the General Fund. No expenditures were made from the account from July 1, 2013 through January 22, 2016 except for \$62 expended in August 2015.



In addition to making payments to contractors and reimbursing clients for projects, the department paid administrative costs from the account. These administrative costs related to providing grants to clients and included office supplies, website maintenance, travel related activity, and payroll. From July 1, 2008 through June 30, 2013, a total of \$124,866 was spent from this account on administrative costs; about 98% of this amount was spent on payroll.

One transaction occurred in 2010 that decreased the account balance by \$2,099. Due to the age of the transaction, support for the nature of the transaction was not available.

Scope and Methodology

We reviewed records available in the state accounting system (SFMA) from July 1, 2008 through January 22, 2016. Prior to fiscal year 2009, records were not readily available because records retention periods for state financial records generally expire in six years.

We reviewed transactions recorded in SFMA and underlying source documentation provided by the department. We also interviewed key department staff and evaluated the following:

- Oregon State Treasury confirmations of account balances at fiscal year ends;
- supporting documentation for payments made to contractors and client reimbursements, which included grant awards, contracts, invoices, receipts;
- supporting documentation, as available, for SPOTS card expenditures; and
- all Community Housing Trust Account transactions recorded in SFMA to identify the type and purpose of the transaction.

This investigation was not conducted in accordance with generally accepted government auditing standards. Staff from our office, who were not involved with the investigation, reviewed our report for accuracy, checking facts against supporting evidence.

State Treasurer's Portfolio Investment Objective & Strategies

The State Treasurer (Treasury) is negotiating an interagency agreement with the department, containing the following investment strategy. Treasury intends moneys invested in the Fixed Income Portfolio(s):

1. Be invested appropriate to department mandate:
 - a. Managed to maximize and achieve a stable and predictable yield on invested moneys, preserve principal and provide sufficient liquidity to the department to allow for cash needs, or
 - b. Managed to maximize total return versus a stated benchmark.
2. Be invested in a well-diversified bond portfolio.
3. Be invested opportunistically, using innovative investment approaches within a controlled and defined portfolio allocation.
4. Be invested with an average portfolio credit quality that is consistent with the risk tolerance and return requirements of the department.

Treasury anticipates that the Fixed Income Portfolio(s) will be limited to the Oregon Short Term Fund (OSTF) and the Oregon Intermediate Term Pool (OITP). Holdings may include, subject to minimum amounts:

1. Obligations issued or guaranteed by the U.S. Federal Government, U.S. Federal agencies or U.S. government-sponsored corporations and agencies.
2. Obligations of U.S. and non-U.S. corporations, commercial paper, certificates of deposit and bankers acceptances issued by industrial, utility, finance, commercial banking or bank holding company organizations.
3. Mortgage-backed (MBS) and asset-backed securities (ABS).
4. Obligations denominated in U.S. dollars only.
5. Obligations issued or guaranteed by U.S. local, city and state governments and agencies.
6. Securities defined under Rule 144A and Commercial Paper defined under Section 4(2) of the Securities Act of 1933.
7. Yankee Bonds (dollar denominated sovereign and corporate debt).
8. Securities eligible for the Oregon Short-Term Investment Fund (OSTF).
9. Securities eligible for the Oregon Intermediate-Term Pool (OITP).

The department and Treasury may develop additional Fixed Income Portfolio investment objectives, constraints and guidelines for the department's funds or account managed under the agreement through one or more Investment Policy Statement (IPS).

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 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.

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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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The courtesies and cooperation extended by officials and staff of the Department of Human Services during the course of this investigation were commendable and sincerely appreciated.