

Office of the Secretary of State

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December 22, 2014

Margaret S. Van Vliet, Director
Oregon Housing and Community Services
725 Summer Street NE, Suite B
Salem, OR 97301-1266

Dear Ms. Van Vliet:

We have completed our financial statement audit of the enterprise funds at the Oregon Housing and Community Services Department (Department) for the year ended June 30, 2014. This audit work was not a comprehensive financial audit of the department, but was performed as part of our annual audit of the State of Oregon's financial statements.

Internal Control over Financial Reporting

In planning and performing our audit of the enterprise funds of the department as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, we considered the department's internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements of the enterprise funds of the department, 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.

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 a combination of deficiencies, in internal control, 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 material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses; however, material weaknesses may exist that have not been identified.

During the course of our audit, we identified the issues below that are opportunities for department management to strengthen internal controls. These issues do not require written responses from management.

Bonds Payable Classification

Department management is responsible for reviewing year-end adjusting entries, which includes reviewing an entry to classify a portion of outstanding bonds payable as a current liability. Accounting standards define current liabilities as those repaid with current assets. We found the entry was reviewed by management, but did not include reclassifying to current liabilities those bonds that were called prior to and repaid shortly after year-end. We brought this to the attention of accounting staff, who corrected the financial statements prior to issuance.

We recommend that management thoroughly review year-end adjusting entries to ensure that account balances are appropriately classified on the financial statements.

Debt Refunding Calculations and Related SWAP Terminations

During FY14, the Department refunded three bond series that were hedged with interest rate SWAPS. When bonds are refunded, accounting standards require a gain or loss be calculated and that the calculation include the fair value of any related swaps. This was the first time bonds with related swaps were refunded and the Department did not consider the related swaps when calculating the loss of the refunding.

In addition, because the Department still held the related swaps after the bonds were refunded, the swaps should have been reclassified from hedging derivatives to investment derivatives.

We informed management of this error and they promptly researched the proper accounting entries to account for the swaps and made corrections to the financial statements. Correcting this error resulted in changes to multiple financial statement accounts. However, the overall net effect of the changes to the financial statements was not significant.

We recommend that management thoroughly review year-end adjusting entries to ensure that entries related to bond refundings are appropriately calculated.

The purpose of this letter is solely to describe the scope of our testing of internal control and the result of that testing, and not to provide an opinion on the effectiveness of the department's internal control. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control. Accordingly, this letter is not suitable for any other purpose.

Page 3

We appreciate your staff's assistance and cooperation during this audit. Should you have any questions, please contact Wendy Hewitt or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

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Audit Manager

JK:tlg

cc: Caleb Yant, CFO
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Michael J. Jordan, Director, Department of Administrative Services