



Enterprise Fund of the State of Oregon

Department of Environmental Quality Clean Water State Revolving Fund Loan Program

For the Fiscal Year Ended June 30, 2021

November 2022

Report 2022-31



Secretary of State
Shemia Fagan



Audits Director
Kip Memmott

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Independent Auditor's Report

The Honorable Kate Brown, Governor of Oregon
Leah Feldon, Interim Director, Oregon Department of Environmental Quality

Report on the Financial Statements

We have audited the accompanying financial statements of the Clean Water State Revolving Fund (CWSRF) program, an enterprise fund of the State of Oregon, Department of Environmental Quality, as of and for the year ended June 30, 2021, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of

significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the CWSRF program, an enterprise fund of the State of Oregon, Department of Environmental Quality, as of June 30, 2021, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1.1, the financial statements present only the CWSRF program and do not purport to, and do not, present fairly the financial position of the State of Oregon or the Department of Environmental Quality as of June 30, 2021, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we will also issue our report dated November 15, 2022, on our consideration of the Department of Environmental Quality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department of Environmental Quality's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department of Environmental Quality's internal control over financial reporting and compliance.

Office of the Secretary of State, Audits Division

State of Oregon
November 15, 2022

Oregon Department of Environmental Quality
Clean Water State Revolving Fund Loan Program
Enterprise Fund
Statement of Net Position
June 30, 2021

	Loan Fund	Administration	TOTAL
Assets			
Current Assets:			
Cash and Cash Equivalents	\$ 286,777,264	\$ 1,731,635	\$ 288,508,899
Loans Receivable, Net	27,696,011	-	27,696,011
Loan Interest Receivable	1,625,708	-	1,625,708
Prepaid Expenses	-	671	671
Due From Oregon DEQ	-	41,286	41,286
Total Current Assets	316,098,983	1,773,592	317,872,575
Noncurrent Assets:			
Loans Receivable, Net	460,167,382	-	460,167,382
Loan Interest Receivable	3,497,515	-	3,497,515
Total Noncurrent Assets	463,664,897	-	463,664,897
Total Assets	\$ 779,763,880	\$ 1,773,592	\$ 781,537,472
Liabilities and Net Position			
Current Liabilities:			
Accounts Payable	\$ -	\$ 11,650	\$ 11,650
Payroll Payable	-	140,116	140,116
Compensated Absences Payable	-	61,010	61,010
Bond Interest Payable	95,375	-	95,375
Bonds Payable	1,055,000	-	1,055,000
Total Current Liabilities	1,150,375	212,776	1,363,151
Noncurrent Liabilities:			
Compensated Absences Payable	-	19,245	19,245
Bonds Payable	6,411,695	-	6,411,695
Total Noncurrent Liabilities	6,411,695	19,245	6,430,940
Total Liabilities	7,562,070	232,021	7,794,091
Net Position			
Unrestricted Net Position	772,201,810	1,541,571	773,743,381
Total Net Position	772,201,810	1,541,571	773,743,381
Total Liabilities and Net Position	\$ 779,763,880	\$ 1,773,592	\$ 781,537,472

The accompanying notes are an integral part of the financial statements.

Oregon Department of Environmental Quality
Clean Water State Revolving Fund Loan Program
Enterprise Fund
Statement of Revenues, Expenses, and Changes in Fund Net Position
For the Fiscal Year Ended June 30, 2021

	Loan Fund	Administration	TOTAL
Operating Revenues			
Loan Interest Income	\$ 8,205,391	\$ -	\$ 8,205,391
Loan Fees	-	1,666,024	1,666,024
Operating Transfer Out	(327,417)	-	(327,417)
Operating Transfer In	-	327,417	327,417
Total Operating Revenues	7,877,974	1,993,441	9,871,415
Operating Expenses			
Bond Interest	119,933	-	119,933
Principal Forgiveness on Loans	3,116,613	-	3,116,613
Salaries and Benefits	-	1,671,112	1,671,112
Services and Supplies	44,849	401,254	446,103
Indirect Costs	-	366,341	366,341
Total Operating Expenses	3,281,395	2,438,707	5,720,102
Operating Income (Loss)	4,596,579	(445,266)	4,151,313
Non-Operating Revenues (Expenses)			
Federal Grants	17,561,337	-	17,561,337
Interest Income on Cash and Cash Equivalents	2,147,395	15,975	2,163,370
Total Non-Operating Revenues (Expenses)	19,708,732	15,975	19,724,707
Change in Net Position	24,305,311	(429,291)	23,876,020
Net Position – Beginning	747,896,499	1,970,862	749,867,361
Net Position – Ending	\$ 772,201,810	\$ 1,541,571	\$ 773,743,381

The accompanying notes are an integral part of the financial statements.

Oregon Department of Environmental Quality
Clean Water State Revolving Fund Loan Program
Enterprise Fund
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2021

	Loan Fund	Administration	TOTAL
Cash Flows from Operating Activities			
Receipts from Loan Fees	\$ -	\$ 1,666,024	\$ 1,666,024
Payments to Vendors	(44,848)	(397,733)	(442,581)
Payments to Employees	-	(1,701,364)	(1,701,364)
Payments for Indirect Cost	-	(366,341)	(366,341)
Transfer to Administration Fund	(275,195)	(275,195)	-
Net Cash Provided (Used) in Operating Activities	(320,043)	(524,219)	(844,262)
Cash Flows from Noncapital Financing Activities			
Receipts from Federal Grants	17,509,115	-	17,509,115
Principal Payments on Bonds	(3,830,000)	-	(3,830,000)
Interest Payments on Bonds	(369,385)	-	(369,385)
Net Cash Provided (Used) in Noncapital Financing Activities	13,309,730	-	13,309,730
Cash Flows from Investing Activities			
Receipts from Treasury Interest Credits	2,147,395	15,975	2,163,370
Repayments from Loan Interest	7,725,445	-	7,725,445
Repayments from Loan Principal	73,398,579	-	73,398,579
Disbursements to Borrowers	(64,604,255)	-	(64,604,255)
Net Cash Provided (Used) in Investing Activities	18,667,164	15,975	(18,683,139)
Net Increase (Decrease) in Cash and Cash Equivalents	31,656,851	(508,244)	31,148,607
Cash and Cash Equivalents, Beginning	255,120,414	2,239,880	257,360,294
Cash and Cash Equivalents, Ending	\$286,777,265	\$ 1,731,636	\$288,508,901

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**Oregon Department of Environmental Quality
Clean Water State Revolving Fund Loan Program
Enterprise Fund
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2021**

(Continued from previous page)

	Loan Fund	Administration	TOTAL
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities			
Operating Income (Loss)	\$ 4,596,579	\$ (445,266)	\$ 4,151,313
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Loan Interest Receipts Reported as Operating Revenue	(7,725,445)	-	(7,725,445)
Bond Interest Payments Reported as Operating Expense	369,385	-	369,385
Principal Forgiveness Expense Reported as Operating Expense	3,116,613	-	3,116,613
Amortization of Bond Premium	(214,706)	-	(214,706)
Net Changes in Assets and Liabilities:			
Loan Interest Receivable	(479,946)	-	(479,946)
Prepaid Expenses	-	(670)	(670)
Accounts Payable	-	7,159	7,159
Payroll Payable	-	(13,583)	(13,583)
Due to Oregon DEQ	52,222	(55,190)	(2,968)
Bond Interest Payable	(34,745)	-	(34,745)
Compensated Absences Payable	-	(16,669)	(16,669)
Total Adjustments	(4,916,622)	(78,953)	(4,995,575)
Net Cash Provided (Used) in Operating Activities	\$ (320,043)	\$ (524,219)	\$ (844,262)

The accompanying notes are an integral part of the financial statements.

Notes to the Basic Financial Statements – Enterprise Fund June 30, 2021

1. Summary of Significant Accounting Policies

The accompanying financial statements of the State of Oregon Department of Environmental Quality Clean Water State Revolving Fund have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for establishing accounting and financial reporting principles.

1.1 Reporting Entity

The Oregon Clean Water State Revolving Fund (CWSRF) was established pursuant to Oregon Revised Statutes 468.423 – 468.440 and the 1987 amendments to the federal Clean Water Act. The purpose of CWSRF is to provide low interest loans to local governments for the planning, design and construction of wastewater treatment facilities, implementation of nonpoint source pollution management plans, and the design and implementation of estuary management plans. The loan repayment period is a maximum of 30 years, and all repayments, including interest and principal, must be credited to the CWSRF.

The CWSRF program is administered by the State of Oregon Department of Environmental Quality (DEQ). The CWSRF program consists of several funds to record loan and related activity, and an administrative fund that collects loan fees and pays the operating costs of the program, and are collectively referred to as the Fund. DEQ's primary responsibilities for the CWSRF include obtaining capitalization grants from the U.S. Environmental Protection Agency (EPA), soliciting potential interested parties for loans, negotiating loan agreements with eligible public agencies, reviewing and approving payment requests from loan recipients, monitoring the loan repayments, and conducting inspection and engineering reviews to ensure compliance with all applicable laws, regulations, and program requirements.

DEQ charges the CWSRF for staff time spent on CWSRF activities, and the CWSRF pays those expenses from the Administration fund. The charges include the salaries and benefits of the employees, as well as indirect costs allocated to CWSRF. The rate of indirect cost is negotiated annually with EPA.

In FY2021, Oregon DEQ used its 4% administrative allowance from the EPA Capitalization Grant. The 4% administrative allowance was used to cover cost incurred for management of the SRF program and for management of projects receiving financial assistance from the SRF. This is the first time in more than 10 years Oregon DEQ elected to draw on its 4% administrative allowance. The Program will assess the need to continue using the administrative allowance in subsequent years.

The Annual Financial Report is prepared for the U.S. Environmental Protection Agency as an Enterprise Fund of the State of Oregon, which uses the accrual basis of accounting. For the purpose of the State of Oregon's Annual Comprehensive Financial Report (ACFR), the CWSRF is included in the

Environmental Management Fund, which is reported as a governmental special revenue fund using the modified accrual basis of accounting. Due to differences in basis of accounting, there may be differences between the amounts reported in these financial statements and the State of Oregon's ACFR.

1.2 Basis of Presentation – Fund Accounting

DEQ programs and accounts are organized by “funds”, each of which is a separate accounting entity. Each major program utilizes a separate set of self-balancing accounts to record the assets, liabilities, net position, revenues and expenses of their activities. DEQ's CWSRF loan program is classified as a proprietary fund for the purposes of these financial statements, however DEQ treats this fund as a governmental fund. Proprietary funds contain two types of funds: Enterprise Funds and Internal Service Funds. The CWSRF loan program is accounted for in an Enterprise Fund. Enterprise Funds account for and report any activity for which fees are charged to external users for goods and services.

1.3 Measurement Focus and Basis of Accounting

The basic financial statements for the Fund are presented as an Enterprise Fund. As such, the Fund is accounted for using the flow of economic resources measurement focus and is maintained on the accrual basis of accounting, in accordance with state policy (OAM 15.40.00). Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded at the time the liabilities are incurred, regardless of the timing of the related cash flow. All revenues and expenses of the Fund are considered to be operating revenues and operating expenses, with the exception of federal grant income and interest income, which are considered to be non-operating revenue. All assets and liabilities associated with the operations of the Fund are included on the Statement of Net Position.

1.4 Cash and Cash Equivalents

All monies of the Fund are deposited with the Office of the State Treasurer, which is responsible for maintaining these deposits in accordance with Oregon law. The Fund considers all such deposits to be cash and cash equivalents. Interest earnings on these deposits are received by the Fund on a monthly basis. The Fund has no other cash deposits or investments.

1.5 Loans Receivable/Bonds Receivable

Loans and bonds are funded by federal capitalization grants, state matching funds, loan repayments and fund earnings. The CWSRF monies are disbursed to borrowers on a cost reimbursement basis. When borrowers have incurred qualifying expenses, they request a loan disbursement from the Fund, and at that time a disbursement is made and recorded in the Fund accounting records. Interest begins accruing when funds are disbursed to the borrower. After the project is complete, repayment begins with an interest only payment. Loans and bonds are fully amortized to assure full repayment by the loan or bond maturity date.

DEQ has been required, under the terms of several grant awards from EPA, to offer additional subsidization to certain borrowers. DEQ has chosen to offer this subsidization in the form of principal forgiveness and has implemented this in administrative rule (OAR 340-054-0065). Loans Receivable are stated net of the allowance for principal forgiveness.

1.6 Long-Term Obligations

Long term obligations of the Fund consist of bonds issued to provide the required State matching funds for the federal capitalization grants, and the non-current portion of compensated absences. Bonds issued on behalf of the CWSRF are reported on the Statement of Net Position, net of the related premium or discount. Bond premium and discount are amortized over the life of the bond issues. Bond premium and discount are reported in the Statement of Revenues, Expenses and Changes in Fund Net Position as bond interest expense.

1.7 Compensated Absences

Employees accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since the state does not pay any amounts when employees separate from state service. A liability for vacation leave (compensated absences) is accrued when incurred as employees may be paid for up to a maximum of 300 hours of accrued vacation leave upon separation from state service.

2. Cash and Cash Equivalents

On June 30, 2021, the book balance of cash and cash equivalents was \$288,508,899 and the bank balance was \$292,095,377. All cash in the Fund is deposited in demand accounts with the State Treasurer in the Oregon Short-Term Fund (OSTF), a cash and investment pool for use by all state agencies.

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the State Treasurer will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The CWSRF does not have a policy regarding custodial credit risk for deposits; however, the insurance and collateral requirements for deposits in the OSTF are established by banking regulations and the Oregon law.

Further details of the investments and a copy of the OSTF audited annual financial report may be obtained by writing to the Oregon State Treasury, 867 Hawthorne Ave. SE, Salem, Oregon 97301 or located at the following web site: <https://www.oregon.gov/treasury/public-financial-services/oregon-short-term-funds/pages/default.aspx>

3. Loans Receivable

The Fund makes loans to qualified entities at interest rates ranging from zero percent to the market rate (see ORS 468.440). Interest rates vary depending on the length of the loan, the type of loan, and program rules (at OAR 340-054). Rates range from 25% of the bond rate for 5-year loans to 55% of the bond rate for 30 year loans. Recipients make semiannual or, in some cases, annual payments, and must begin loan principal and interest repayments within one year of the date the facility is operationally complete and ready for the purpose it was planned, designed, and built or the project is completed, as determined by DEQ. There is an allowance account for that portion of loan disbursements that will not be repaid due to principal forgiveness offered to some borrowers. Principal forgiveness is offered to

some borrowers, based on criteria in administrative rule, to comply with a requirement included in DEQ's grant agreement with EPA. There is no additional allowance account, because Fund management believes all existing borrowers will pay as agreed. The detail of loans receivable as of June 30, 2021 is as follows:

Loans Receivable	\$491,687,814
Less: Allowance for Doubtful Accounts	<u>(3,824,421)</u>
Net Loans Receivable, 6/30/2021	<u>\$487,863,393</u>

4. Bonds Payable

In July 2003 EPA agreed to the use of the CWSRF Fund assets to pay the principal and interest on general obligation bonds that were previously issued by the State to provide the 20 percent state matching funds as required by the Clean Water Act. The following table summarizes bonds with activity during Fiscal Year 2021:

Original Issue

Series	Due Dates	Interest Range	Original Amount
2010A	2011-2030	2.00%-3.75%	\$ 4,945,000
2012A	2014-2033	1.50%-5.00%	4,235,000
2013A	2014-2024	2.00%-5.00%	4,015,000
2015A	2016-2026	5.00%	4,040,000
		Total:	\$ 17,235,000

Bonds Outstanding

Series	Balance 6/30/2020	Increases	Decreases	Balance 6/30/2021	Due Within One Year
2010A	\$ 2,825,000	-	\$ 2,825,000	\$ -	\$ -
2012A	3,205,000	-	190,000	3,015,000	195,000
2013A	1,840,000	-	425,000	1,415,000	450,000
2015A	2,655,000	-	390,000	2,265,000	410,000
2021A	-	10,000,000	10,000,000	-	-
Totals:	\$ 10,525,000	\$ 10,000,000	\$ 13,830,000	\$ 6,695,000	\$ 1,055,000

The bond interest rates noted above differ depending on the term of the individual security. Thus, those securities with the longest term yield the highest interest rate.

The following table summarizes the amounts necessary to pay all future bonded debt principal and interest requirements for each year during the next five-year period, and in five-year increments thereafter.

Year Ending 6/30/2021	Bond Principal	Bond Interest	Total Debt Service
2022	1,055,000	269,875	1,324,875

2023	1,105,000	215,875	1,320,875
2024	1,165,000	159,125	1,324,125
2025	705,000	112,375	817,375
2026	740,000	76,250	816,250
2027-2031	1,335,000	191,175	1,526,175
2032-2036	590,000	17,850	607,850
Totals:	6,695,000	1,042,525	7,737,525

5. Changes in Long-Term Liabilities

The liability for compensated absences is calculated based on the vacation accrual at June 30, 2021 for each employee whose duties include CWSRF related activities. Bonds payable includes amounts payable on bonds issued to benefit the CWSRF fund, and also includes the unamortized amounts of bond discount or premium.

The long-term liability activity for the year ended June 30, 2021 was as follows:

	Beginning Balance 7/1/2020	Increases	Decreases	Ending Balance 6/30/2021	Due Within One Year
Bonds Payable	\$ 10,525,000	\$10,000,000	\$13,830,000	\$ 6,695,000	\$ 1,055,000
Issuance Premium	986,401	-	214,706	771,695	-
Issuance Discount	-	-	-	-	-
<i>Total Bonds Payable</i>	11,511,401	10,000,000	14,044,706	7,466,695	1,055,000
Compensated Absences	96,924	80,255	96,924	80,255	61,010
Total Long Term Liabilities	\$ 11,608,325	\$10,080,255	\$14,141,630	\$ 7,546,950	\$ 1,116,010

6. Loan Fees

In order to support administration and project management costs, loan fees are assessed on loans originating after 1992. A fee of 0.50 percent is assessed on the outstanding loan principal balance and is collected annually, beginning with the second loan payment.

Fees are deposited to a separate Treasury account and are used only for administrative and project management costs. Planning loans are not assessed annual fees in order to encourage Oregon communities to complete more planning.

7. Employee Retirement Plan

Plan Description

As part of the State of Oregon, the Public Employees Retirement System (PERS) provides defined benefit and defined contribution retirement plans to the Fund's employees. PERS is a cost-sharing multiple-employer defined benefit pension plan. All benefits of PERS are established by the legislature pursuant to ORS Chapters 238 and 238A. Tier One/Tier Two Retirement Benefit plan, established by ORS Chapter 238, is closed to new members hired on or after August 29, 2003. The Oregon Public Service Retirement Plan (OPSRP), established by ORS 238A, provides benefits to members hired on or after August 29, 2003. The Individual Account Program (IAP) is a defined contribution plan. Beginning

January 1, 2004, all member contributions are deposited into the members IAP account. The pension plans provide pension benefits, death benefits, and disability benefits.

PERS issued a separate, publicly available, audited financial report that may be obtained from the Fiscal Services Division, Public Employees Retirement System, PO Box 23700, Tigard, Oregon 97281-3700.

Contributions

PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. The rates in effect for the fiscal year ended June 30, 2021, for state agencies general service members were: 20.76% for Tier One/Tier Two and 14.48% for OPSRP. The IAP member contribution as set by statute is 6% and is currently paid by employees.

Employer contributions for the fiscal year ended June 30, 2021, were \$23,471 for Tier One/Tier Two and \$105,251 for OPSRP. Member contributions for the fiscal year ended June 30, 2021, were \$50,396.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources

At June 30, 2021, the State reported a liability of \$5 billion for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2018. The State's portion of the net pension liability was based on a projection of the State's long-term share of contributions of all participating employers, actuarially determined. At the June 30, 2020, measurement date, the State's proportion, was 23% percent.

The Fund's portion of the net pension liability was not specifically identified. See Note 14. Employee Retirement Plans, in the State of Oregon Annual Comprehensive Financial Report (ACFR), for more detail.

8. Other Postemployment Benefit Plans

The Fund's employees may be eligible to participate in health insurance plans and other benefit plans after retirement, collectively known as Other Postemployment Benefits (OPEB). OPEB plans are offered through the Public Employees Retirement System (PERS) as established by ORS 238 and the Public Employees Benefit Board (PEBB) as established by ORS 243. A copy of the audited annual financial report may be obtained from Fiscal Services Division, Public Employees Retirement System, PO Box 23700, Tigard, Oregon 97281-3700.

Retirement Health Insurance Account

The Retirement Health Insurance Account (RHIA) is a cost-sharing multiple employer OPEB plan which provides a payment of up to \$60 toward the monthly cost of health insurance for eligible PERS members. To be eligible for the RHIA subsidy, the member must: 1) have eight years or more of qualifying service in PERS at the time of retirement or receive a disability allowance as if the member

had eight years or more creditable service in PERS, 2) receive both Medicare Parts A and B coverage, and 3) enroll in a PERS-sponsored health insurance plan.

The Department is required by statute to contribute actuarially computed amounts as determined by PERS. Rates are subject to change as a result of subsequent actuarial valuations. The rate of each covered employee's salary for the fiscal year end June 30, 2021, was 0.06% for Tier One and Tier Two and 0% percent for OPSRP General Service Members. Combined employer contributions for the years ended June 30, 2021, 2020 and 2019, was approximately \$504 and \$5,470, and \$4,229 respectively, equal to the required contributions each year.

Retiree Health Insurance Premium Account

The Retiree Health Insurance Premium Account (RHIPA) is a single employer OPEB plan that provides for payment of the average difference between the health insurance premiums paid by retired state employees, under contracts entered into by the PERS Board, and the health insurance premiums paid by state employees who are not retired. Retired state employees are qualified to receive the RHIPA subsidy if they had eight or more years of qualifying service in PERS at the time of retirement or are receiving a disability pension calculated as if they had eight or more years of qualifying service but are not eligible for federal Medicare coverage.

The Department is required by statute to contribute actuarially computed amounts as determined by PERS. Rates are subject to change as a result of subsequent actuarial valuations. The rate of each employee's covered salary for the fiscal year ended June 30, 2021, was 0.39% for Tier One and Tier Two and 0.27% for OPSRP General Service Members. The Fund's actual contribution for the year ended June 30, 2021, 2020 and 2019 was approximately \$5,544, \$4,999, and \$3,906, respectively, which was equal to the actuarial required contribution.

Public Employees Benefit Board Plan

The Public Employees Benefit Board (PEBB) plan is a single-employer plan which offers medical, dental and vision benefits to eligible retired employees. Chapter 243 of the Oregon Revised Statutes assigns PEBB the authority to establish and amend the benefit provisions of the PEBB Plan. The PEBB Plan allows qualifying retired employees to continue their healthcare on a self-pay basis until eligible for Medicare, usually at age 65. The PEBB Plan funding policy provides for contributions at amounts sufficient to fund benefits on a pay-as-you-go basis. Active employees do not make contributions. Participating retirees pay their own monthly premiums based on a blended premium rate since retirees are pooled together with active employees for insurance rating purposes. PEBB activity is reported as part of the State of Oregon's annual report and does not issue a separate financial report.

The State of Oregon's liability for the primary government was \$113 million for the fiscal year ended June 30, 2021 and was determined by an actuarial valuation as of June 30, 2021. The Fund's portion of this liability was not specifically identified.

9. Commitments

As of June 30, 2021 the CWSRF has active loan agreements in the amount of \$325,775,898 and has disbursed a total of \$140,408,211 in cash to these borrowers. The amount of undisbursed loan commitments is \$185,367,687.

10. Risk Financing

The Department of Administrative Services, Enterprise Goods and Services, Risk Management section (Risk Management) administers the State's property, liability, and workers' compensation insurance program. Risk Management has found it is more economical to manage the risk of loss internally and, therefore, minimizes the purchase of commercial insurance policies to the extent possible. The monies set aside by Risk Management under Chapter 278 of the Oregon Revised Statutes are used to service the following risks:

- Direct physical loss or damage to State property
- Tort liability claims brought against the State, its officers, employees, or agents
- Inmate injury
- Workers' compensation
- Employee dishonesty
- Faithful performance bonds for key positions as required by law and additional positions as determined by agency policy

Risk Management purchases commercial insurance for specific insurance needs not covered by self-funding. For example, the self-insured property and liability program is backed by an excess property policy with a limit of \$425 million and a blanket commercial crime policy with a limit of \$5 million. The amount of claim settlements did not exceed commercial insurance coverage for each of the past three fiscal years.

All State agencies, commissions, and boards participate in the self-insured property and liability program. Risk Management allocates the cost of claims and claim administration by charging an assessment to each State agency, based on its share of losses. Statewide risk charges are based on independent biennial actuarial forecasts and division expenses, less any available fund balance from the prior biennium.

The CWSRF participates in this risk financing program through DEQ, which, as a State agency, is a participant. Settlements have not exceeded insurance coverage in each of the past three years.

11. Subsequent Events

Potential financial impact of the COVID-19 pandemic will be continually assessed during fiscal year 2022.

On September 14, 2021, the federal fiscal year 2022 capitalization grant from EPA was awarded in the amount of \$21,538,800. This amount provides additional capital funding for the CWSRF program.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

The Honorable Kate Brown, Governor of Oregon
Leah Feldon, Interim Director, Oregon Department of Environmental Quality

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Clean Water State Revolving Fund (CWSRF) program, an enterprise fund of the State of Oregon, Department of Environmental Quality (department), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the CWSRF program's basic financial statements, and have issued our report thereon dated November 15, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material

weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the department's financial statements of the CWSRF program are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Department Response to Finding

The department's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Office of the Secretary of State, Audits Division

State of Oregon
November 15, 2022

Schedule of Findings and Responses

Knowledge, skills, and abilities necessary to prepare financial statements that are compliant with GAAP require improvement

During the audit of the fiscal year 2021 Clean Water State Revolving Fund program financial statements, auditors noted concerns regarding the department's ability to prepare the program's financial statements in compliance with generally accepted accounting standards, primarily because the department experienced significant turnover of accounting staff over the past year, including the accountant responsible for the preparation of the financial statements.

In our review of the initial draft of the financial statements and note disclosures we noted several errors: financial statement amounts did not tie back to the accounting records, an unsupported adjustment to a line item, non-cash activity included on the Statement of Cash Flows, and amounts included in the note disclosures did not tie back to the financial statements or accounting records. We also found the spreadsheets used in the preparation of the financial statements draw from multiple sources, rather than a single working trial balance, adding a layer of complexity likely contributing to the errors noted during our review.

We recommend department management dedicate resources to hiring and training staff. We also recommend department management reconsider the approach to the preparation of the financial statements and update the preparation procedures as applicable.



Oregon

Kate Brown, Governor

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The Department of Environmental Quality Financial Services Division will be taking action in response to the audit findings below:

Management Response to the Audit Findings

CWSRF FY21 Financial Statement Audit

Financial Statement Amounts Did Not Tie Back to Accounting Records, Unsupported Adjustments Made, Non-Cash Activity Included on the Statement of Cash Flows, and Note Disclosures Did Not Match the Financial Statements

DEQ concurs with these findings.

In preparation for future work, DEQ has already started to review the process of completing the financial statements and build reports that will assist in the preparation of them. This will allow for one data source to be used to ensure all amounts tie back to the accounting records.

DEQ recognizes that the significant turnover in staff, including the accountant responsible for the preparation of the financial statements, has contributed to errors made on the statements. DEQ has hired several new staff in the accounting department and is in recruitment for the final open position. DEQ is also working on providing resources for training new and existing staff.

DEQ is currently in the process of obtaining a new software system to manage the CWSRF program and loans disbursed. The implementation of the new software is expected sometime in calendar year 2023. The software will allow the program to manage the individual loans more concisely and remove the need for an Excel spreadsheet to track the loans. This will remove opportunities for errors through manual calculations. Having reports provided from the system will also reduce the workload in reconciling between Excel and SFMA and will allow for more timely reconciliations.

To assist with the review of financial records, Accounting and the Program will meet quarterly to review the reconciliations, address questions related to disbursements and interest, and discuss any changes in the program.

Corrective action to be completed by June 30, 2023.

The person responsible for the corrective action is Anne Marie Murphy, Accounting Manager.

Multiple Sources Used to Compile Financial Statements

DEQ concurs with these findings

DEQ has used multiple sources, specifically various DAFR reports, to build the financial statements. Using

these various reports could result in errors in the financial statements. DEQ is working on building a working trial balance for the program to ensure that a single data source is used.

Corrective action to be completed by June 30, 2023

The person responsible for the corrective action is Anne Marie Murphy, Accounting Manager.

About the Audit

The courtesies and cooperation extended by officials and employees of the Department of Environmental Quality during the course of this engagement were commendable and sincerely appreciated.

Audit team

Teresa Furnish, CISA, Deputy Director

Michelle Searfus, CPA, Audit Manager

Michael Yamamoto, Lead Auditor

Anthony Truong, CPA, Staff Auditor

About the Secretary of State Audits Division

The Oregon Constitution provides that the Secretary of State shall be, by virtue of the office, Auditor of Public Accounts. The Audits Division performs 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 has constitutional authority to audit all state officers, agencies, boards and commissions as well as administer municipal audit law.



Secretary of State
Shemia Fagan



Audits Director
Kip Memmott

This report is intended to promote the best possible
management of public resources.
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