

Government Auditing Standards Report

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT ON THE
COUNTY'S 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***

To the Board of County Commissioners
Lane County, Oregon

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lane County, Oregon as of and for the year ended June 30, 2007, which collectively comprise Lane County, Oregon's basic financial statements and have issued our report thereon dated November 28, 2007. In that report we indicated we did not audit the financial statements of the Housing Authority and Community Services Agency of Lane County (the Housing Authority). Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Housing Authority, is based solely on the report of other auditors. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lane County, Oregon's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lane County, Oregon's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lane County, Oregon's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for a limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Lane County, Oregon's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Lane County Oregon's financial statements that is more than inconsequential will not be

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prevented or detected by Lane County Oregon's internal control. We consider the deficiencies 2007-01 and 2007-02 described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Lane County Oregon's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider deficiency 2007-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lane County, Oregon's financial statements are free of 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 determination of financial statement amounts. 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 and the reports of other auditors disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Lane County, Oregon Board of Commissioners, Oregon Secretary of State Division of Audits, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Moss Adams, LLP

Eugene, Oregon
November 28, 2007

OMB Circular A-133 (Single Audit) Report

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT ON THE
COUNTY'S COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of County Commissioners
Lane County, Oregon

Compliance

We have audited the compliance of Lane County, Oregon with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Lane County, Oregon's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Lane County, Oregon's management. Our responsibility is to express an opinion on Lane County, Oregon's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lane County, Oregon's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Lane County, Oregon's compliance with those requirements.

In our opinion, Lane County, Oregon complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Lane County, Oregon is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations,

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contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Lane County, Oregon's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lane County, Oregon's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, Lane County Oregon Board of Commissioners, Oregon Secretary of State Division of Audits, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Moss Adams, LLP

Eugene, Oregon
November 28, 2007

Schedule of Expenditures of Federal Awards

For the Fiscal Year Ended June 30, 2007

| Federal Grantor and Program Title | CFDA Number | Pass-Through Entity Number | Expenditures |
|---|----------------|-------------------------------|-------------------|
| <u>U. S. Department of Agriculture</u> | | | |
| Passed through Oregon Department of Education: | | | |
| National School Lunch Program | 10.555 | 10.555 | \$ 76,033 |
| Passed through Oregon Department of Human Services: | | | |
| Special Supplemental Nutrition Program for Women, Infants and Children | 10.557 | 05/06-280559 | 1,006,831 |
| Schools and Roads Grants to States | 10.665 | PL 106-393/HAF061B09 | 31,033,347 |
| Total U. S. Department of Agriculture | | | 32,116,211 |
| <u>U. S. Department of Housing and Urban Development</u> | | | |
| Direct programs: | | | |
| Community Planning and Development - viable living | 14.218 | | 444,405 |
| Supportive Housing Program | 14.235 | | 1,232,797 |
| Passed through Oregon Housing & Community Services Department: | | | |
| Housing Grant - EDCD | 14.228 | HR410 | 276,225 |
| Emergency Shelter Grants Program | 14.231 | ESPG 05 | 187,493 |
| Supportive Housing Program | 14.235 | EHA 07 | 104 |
| HOME Investments Partnerships Program | 14.239 | Home TBA/LIRHF 05-07 | 320,093 |
| Total U. S. Department of Housing and Urban Development | | | 2,461,117 |
| <u>U. S. Department of the Interior</u> | | | |
| Direct programs: | | | |
| Distribution of Receipts to State and Local Governments (O&C) | 15.227 | | 15,069,793 |
| Total U. S. Department of the Interior | | | 15,069,793 |
| <u>U. S. Department of Justice</u> | | | |
| Direct programs: | | | |
| Sex Offender Management Discretionary Grant | 16.203 | | 33,740 |
| Education and Training to end Violence against Women with Disabilities | 16.529 | | 115,888 |
| National Institute of Justice Research, Evaluation, and Development Project Grants | 16.560 | | 80,783 |
| Crime Victim Assistance/Discretionary Grants | 16.580 | | 42,000 |
| Drug Court Discretionary Grant Program | 16.585 | | 173,273 |
| Violence Against Women Program | 16.590 | | 199,636 |
| Paul Coverdell Forensic Science Program | 16.742 | | 94,988 |
| Bulletproof Vest Partnership Program | 16.607 | | 18,237 |
| Passed through Oregon Department of Justice: | | | |
| Crime Victim Assistance | 16.575 | 05-2430 | 69,264 |
| Public Safety Partnership and Community Policing Grants | 16.710 | 2006CKWX0501 | 26,142 |
| Enforcing Underage Drinking Laws Program | 16.727 | 113006 | 1,276 |
| Edward Bryne Memorial Justice Assistance Grant Program | 16.738 | 2005DJBX0330 | 64,142 |
| Passed through Oregon State Police: | | | |
| Juvenile Accountability Incentive Block Grants | 16.523 | 02-619 | 29,214 |
| Violence Against Women Formula Grant | 16.588 | 04-755/05-756 | 27,398 |
| Total U. S. Department of Justice | | | 975,981 |
| <u>U. S. Department of Transportation</u> | | | |
| Passed through Oregon State Department of Transportation: | | | |
| State and Community Highway Safety | 20.600 | SC-06-35-05 | 29,719 |
| Passed through Oregon State Sherriff's Association: | | | |
| Occupant Protection | 20.602 | Lane County | 34,096 |
| Minimal Penalties for Repeat Offenders for driving while intoxicated | 20.608 | Lane County | 39,275 |
| Total U. S. Department of Transportation | | | 103,090 |
| <u>U. S. Environmental Protection Agency</u> | | | |
| Direct programs: | | | |
| Brownfields Assessment and Cleanup Cooperative Agreement | 66.818 | | 42,040 |
| Total U. S. Environmental Protection Agency | | | 42,040 |
| <u>U. S. Department of Energy</u> | | | |
| Passed through Oregon Housing and Community Services: | | | |
| Weatherization Assistance for Low-Income Persons | 81.042 | DOE 05-06 WX/BPA 06 NASP & WX | 660,418 |
| Total U. S. Department of Energy | | | 660,418 |
| <u>U. S. Department of Education</u> | | | |
| Passed through Oregon Department of Human Services: | | | |
| Safe and Drug-Free Schools and Communities State Grants | 84.186 | 113006 | 100,000 |
| Total U. S. Department of Education | | | 100,000 |

Lane County, Oregon

Schedule of Expenditures of Federal Awards

For the Fiscal Year Ended June 30, 2007

| Federal Grantor and Program Title | CFDA Number | Pass-Through Entity Number | Expenditures |
|--|----------------|-------------------------------|---------------|
| <u>U. S. Department of Health and Human Services</u> | | | |
| Direct Programs: | | | |
| Consolidated Health Centers | 93.224 | | \$ 1,138,536 |
| Drug Free Communities Support Program Grant | 93.276 | | 89,603 |
| Compassion Capital Fund Grant | 93.009 | | 4,661 |
| Passed through Oregon Department of Human Services: | | | |
| Maternal and Child Health Federal Consolidated Programs | 93.110 | PE 44 | 17,508 |
| Projects for Assistance in Transition from Homelessness (PATH) | 93.150 | 113006 | 56,960 |
| Abstinence Education | 93.235 | PE 11 | 6,358 |
| Early Childhood Prevention Education | 93.243 | 113006 | 241,715 |
| Immunization Grants - noncash assistance | 93.268 | PE 01 | 153,735 |
| Centers for Disease Control and Prevention | | | |
| Investigations and Technical Assistance | 93.283 | PE 01/04/12 | 437,646 |
| Temporary Assistance for Needy Families | 93.558 | HSP 07 | 86,649 |
| Child Support Enforcement | 93.563 | 07-Gov-DA-15 | 1,167,909 |
| Centers for Medicare and Medicaid Services | 93.779 | 11P92122 | 10,000 |
| Block Grants for HIV Prevention | 93.940 | PE 07/09 | 104,934 |
| Block Grants for Community Mental Health Services | 93.958 | 113006 | 260,148 |
| Block Grants for Prevention and Treatment of Substance Abuse | 93.959 | 920001/113006 | 1,128,566 |
| Maternal and Child Health Services Block Grant to States | 93.994 | PE 01/42 | 232,720 |
| Passed through Oregon Commission on Children & Families: | | | |
| Promoting Safe and Stable Families | 93.556 | 222806 | 103,614 |
| Child Care and Development Block Grant | 93.575 | 222806 | 158,554 |
| Basic Center Grant | 93.623 | 219069 & 225825 | 86,947 |
| Social Services Block Grant | 93.667 | 222806 | 644,105 |
| Medical Assistance Program | 93.778 | 107157/0507Lane | 54,881 |
| Passed through Oregon Housing & Community Services Department: | | | |
| Temporary Aid to Needy Families | 93.558 | 113006 | 57,517 |
| Low-Income Home Energy Assistance | 93.568 | LIEAP Leverage 04/05 | 2,593,968 |
| Community Services Block Grant | 93.569 | CSBG 04-06 | 402,254 |
| Total U. S. Department of Health and Human Services | | | 9,239,488 |
| <u>U. S. Department of Homeland Security</u> | | | |
| Passed through Oregon State Marine Board: | | | |
| Marine Safety | 97.012 | 221262 | 435,456 |
| Passed through Oregon Emergency Management: | | | |
| State and Local Homeland Security Exercise Support | 97.006 | 224017 | 115,703 |
| Civil Defense Grants | 97.042 | 223185 | 96,663 |
| Passed through Oregon Office of Homeland Security | | | |
| Citizen's Corp Grant | 97.053 | 04-123/05-111 | 1,467 |
| Law Enforcement Terrorism Prevention Program | 97.074 | 04-171 | 12,372 |
| Total U. S. Department of Homeland Security | | | 661,661 |
| Total Expenditures of Federal Awards | | | \$ 61,429,799 |

Notes to Schedule of Expenditures of Federal Awards

For the Fiscal Year Ended June 30, 2007

1. Purpose of the Schedule

The accompanying schedule of expenditures of federal awards is a supplementary schedule to Lane County, Oregon's (the "County") basic financial statements and is presented for purposes of additional analysis. Because the schedule presents only a selected portion of the activities of the County, it does not present the financial position, changes in financial position, or the cash flows of the County.

2. Significant Accounting Policies

Reporting Entity

The reporting entity is fully described in Note I.A. to the County's basic financial statements. The schedule includes all federal programs administered by the County for the fiscal year ended June 30, 2007 except for those administered by the Housing and Community Services Agency. This component unit receives federal monies under its own employer identification number and independently submits its schedule and related internal control and compliance reports as required by *OMB Circular A-133*.

Basis of Presentation

The information in the schedule is presented in accordance with *OMB Circular A-133*.

Federal Financial Assistance

Pursuant to the *Single Audit Act* and *OMB Circular A-133*, federal financial assistance is defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, or direct appropriations. Accordingly, nonmonetary federal assistance, including federal surplus property, is included in federal financial assistance and is reported on the schedule (if applicable). Federal financial assistance does not include direct federal cash assistance to individuals. Solicited contracts between the County and the federal government for which the federal government procures tangible goods or services are not considered to be federal financial assistance.

Major Programs

The *Single Audit Act* and *OMB Circular A-133* establish criteria to be used in defining major programs. Major programs are those programs selected for testing using a risk-assessment model, as well as certain minimum expenditure requirements, as outlined in *OMB Circular A-133*. Programs with similar requirements may be grouped into a cluster for testing purposes.

Basis of Accounting

Receipts and expenditures are accounted for using the modified accrual basis of accounting. Revenues are recorded when measurable and available, or in the case of grants where expenditure is the prime factor for determining eligibility, when the expenditure is made. Expenditures are recorded when a liability is incurred.

3. Insurance Coverage

For the year ended June 30, 2007, the County had insurance in effect as recommended by their agent of record which was comparable in coverage to other counties of similar size and circumstance.

4. Non-cash Assistance

A total of \$153,735 was received in non-cash assistance and is included in federal awards expended.

Schedule Of Findings And Questioned Costs

For the Fiscal Year Ended June 30, 2007

A. Summary of Audit Results:

- (1) The auditor's report expresses an unqualified opinion on the financial statements of Lane County, Oregon.
- (2) Two significant deficiencies in internal control were reported by the audit of the financial statements, one of which was a material weakness.
- (3) No instances of noncompliance material to the financial statements were reported.
- (4) No significant deficiencies or material weaknesses in internal control over major programs were reported.
- (5) The auditor's report on compliance for the major federal award programs for Lane County, Oregon expresses an unqualified opinion.
- (6) There were no audit findings disclosed that are required to be reported in accordance with *OMB Circular A-133*.
- (7) Identification of major programs:
 - ✓ Distribution of Receipts to State and Local Governments (O & C):
CFDA #15.227
 - ✓ Low Income Home Energy Assistance Grant (LIEAP Program):
CFDA #93.568
- (8) The threshold for distinguishing between Type A and Type B programs was \$1,842,894.
- (9) Lane County, Oregon did qualify as a low-risk auditee under §530 of OMB Circular A-133.

B. Findings – Financial Statement Audit:

Finding 2007-01: Material weakness in internal controls for monitoring of expenditures for year-end recognition

Criteria: A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Schedule Of Findings And Questioned Costs (continued)

For the Fiscal Year Ended June 30, 2007

Condition and Perspective Information: During our audit of Lane County's (County) financial statements, we noted one invoice totaling approximately \$757,000 which covered work performed between May 2007 and July 6, 2007, on behalf of the Solid Waste Fund, that was not recorded in the financial statements as a current year transaction. A majority of the work was completed during fiscal year 2007 and should have been included in the financial statements as additions to construction in progress and accounts payable.

Questioned Costs: None

Effect: The absence of adequate monitoring controls for year-end recognition of expenditures increases the likelihood that a material misstatement of the County's financial statements will not be prevented or detected. The effect of the accounting error resulted in an understatement of the Solid Waste Fund's accrued liabilities and construction in progress.

Cause: Lane County departments are individually responsible for monitoring expenditures for cut-off recognition. The County appeared to have control procedures in place to detect cutoff of expenditures. We believe that a deficiency with the design of those control procedures used to monitor expenditure cut-off exists because the error was not detected within the scope of the County's financial statement closing process.

Recommendation: We recommend the County review its procedures and instructions to department personnel responsible for monitoring of expenditures for cut-off to ensure they are adequately communicated. Additionally, the County's Finance Department may consider review of expenditures which they consider material to each fund in order to prevent potential misstatements.

Views of the Responsible Officials: Financial Services Division will revise fiscal year end training and communication to department personnel and will institute a strengthened review of subsequent disbursements.

Finding 2007-02: Significant deficiency in internal controls for monitoring of revenues for year-end recognition

Criteria: A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

Condition and Perspective Information: During our audit of Lane County's (County) financial statements, we noted that Lane County receives reimbursements from the State of Oregon for work performed on behalf of the Oregon Department of Transportation. Based upon a review of the timing of the work, the project's contract and consideration of the basis of accounting, it was

Schedule Of Findings And Questioned Costs (continued)

For the Fiscal Year Ended June 30, 2007

determined that approximately an additional \$560,000 should have been recorded as an account receivable and revenue for fiscal year 2007.

Questioned Costs: None

Effect: The absence of sufficient monitoring controls for year-end revenue recognition increases the likelihood that a material misstatement of the County's financial statements will not be prevented or detected. The effect of the accounting error resulted in the under reporting of the General Road fund's accounts receivable and associated revenue.

Cause: County departments remain responsible for invoicing and collection of accounts receivable. These procedures are managed on a departmental basis, and are not standardized throughout the County. Current practice requires the finance department to inquire of the individual departments for amounts collected within 2 months after year end. This amount is then recorded as the accounts receivable balance. While this is a reasonable estimate, it fails to capture all accounts which have been invoiced.

Recommendation: We recommend the County review its procedures and instructions to the department personnel responsible for monitoring of receivables and revenue for cut-off to ensure they are sufficiently communicated. Additionally, The County should consider implementing a centralized accounts receivable system to improve completeness and cut-off controls over billings and collections of various departmental revenues.

Views of the Responsible Officials: Financial Services Division will work with the County Internal Auditor to analyze opportunities for centralizing financial services and will continue efforts to implement a centralized accounts receivable system.

C. Findings and Questioned Costs – Major Federal Award Programs Audit:

None

Lane County, Oregon

Summary Schedule Of Prior Audit Findings

For the Fiscal Year Ended June 30, 2007

Follow-up on findings reported June 30, 2006

Findings – Financial Statement Audit

None

Findings and Questioned Costs – Major Federal Award Programs Audit

None

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