

Appendix A – Listing of all position reclassifications completed during the 2011-2013 biennium including the position classifications involved and the change in salary associated with the reclassification* and provide a listing by classification of all new hires made during the 2011-2013 biennium including the salary step the position was hired at along with justification for any position hired above salary step 2.

*The agency did not have any position reclassifications in 2011-2013.

Positions Hired in 2011-2013	Classification	Hired @ Step	Justification
Federal Reporting Coordinator	Natural Resource Specialist 3	2	n/a
Information Management Specialist	Natural Resource Specialist 3	4	The person hired to this position brings with him a significant level of experience having worked for OWEB previously in two different capacities related to field monitoring and reporting as well as data analysis and management. He also served as coordinator for a high-profile project with multiple organizations for multiple years representing OWEB interests in broad scale monitoring. He also has important and relevant experience and background with the U.S. Forest Service.
Deputy Director	Principal Executive/ Manager F	9	The person hired to this position presented unique and special skills to successfully carry out the responsibilities of the deputy director position to help the agency get through a critical transition period. She has exceptional experience with operating grant programs and excellent relations with Oregon's agriculture sector. Her tenure as a non-voting member of the OWEB Board provided her with a unique and deep understanding of OWEB programs and policies, as well as a firm understanding of staff and budget issues.
Senior Policy Coordinator	Operations and Policy Analyst 3	6	The person hired to this position brings extensive experience to the agency. She has been a key player in her coordination role for the SB 513 working group, Measure 76 implementation team, forest health collaboratives and other controversial subjects. Her work experience provides OWEB with the ability to quickly implement needed legislative work without the need to train her into the position.
Database and Reporting Specialist	Natural Resource Specialist 2	1	n/a
Federal Reporting Coordinator	Natural Resource Specialist 3	2	n/a

Appendix B-1 – Program Funding Team Phase 2 Buy Sheet

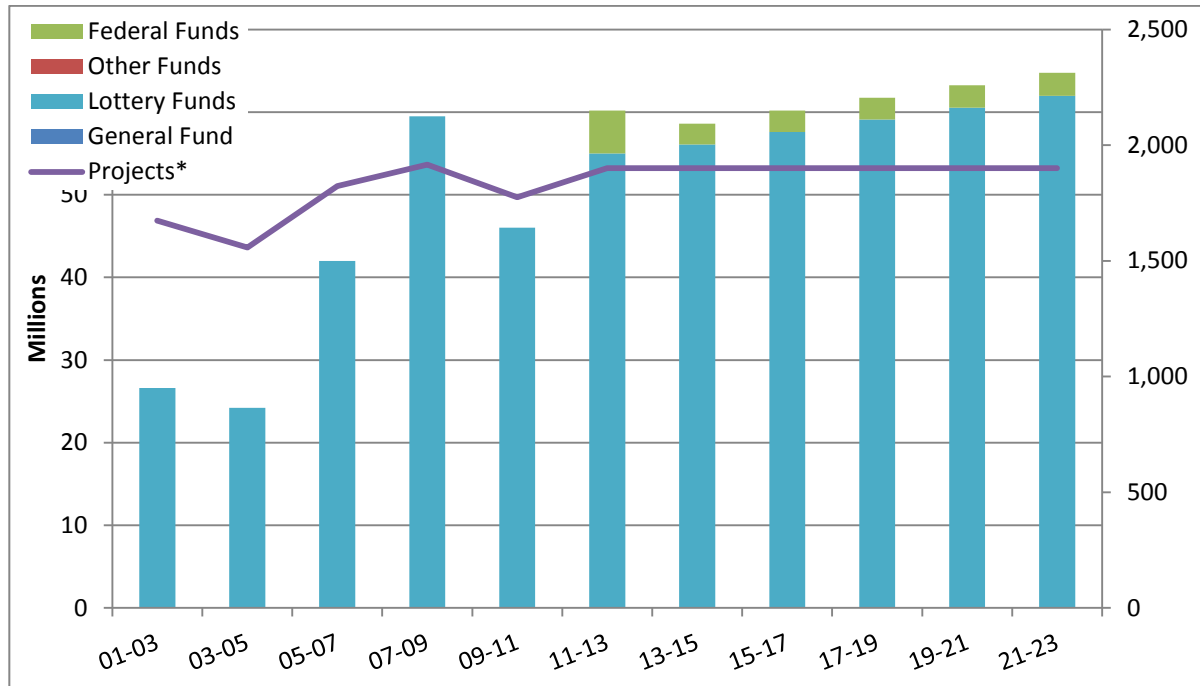
Oregon Watershed Enhancement Board: Capital Construction

Primary Outcome Area: Healthy Environment

Secondary Outcome Area: Economy and Jobs

Program Contact: Tom Byler, Oregon Watershed Enhancement Board Director, 503-986-0180

Table 1.



*Number of applications reviewed and agreements executed. Estimated numbers provided for 2011-2021.

Executive Summary

OWEB implements grant programs to improve and enhance Oregon’s clean water, native fish and wildlife habitat, and large, connected natural areas. OWEB’s grants support local community organizations across Oregon as they implement, track and monitor science-based projects with private landowners that restore land, water and fish and wildlife habitat, and provide Oregon jobs.

Program Funding Request

The Parks and Natural Resources Fund established by Measure 76 (2010) constitutionally dedicates 65 percent of the set-aside lottery funds for grants. These funds constitute the most significant source of funding for the agency’s watershed enhancement grant programs.

Through this Constitutional funding, OWEB provides grants to help Oregonians take care of local streams, rivers, wetlands and natural habitat from ridge-top to ridge-top across the state. Community members and landowners use scientific criteria to decide jointly what needs to be done to conserve and improve habitat in the places where they live. OWEB grants are funded from the Oregon Lottery, federal dollars and salmon license plate revenue. OWEB is funded

through the Lottery as a result of a constitutional ballot initiative passed by voters twice, in 1998 and again in 2010. The 2010 initiative made permanent the funding for watershed restoration purposes.

In the last three biennia, OWEB has funded an annual average of 530 grants and agreements with local watershed councils, soil and water conservation districts, land trusts and other local organizations each year. OWEB is working to develop more flexible and efficient means of delivering its grant program. Grant reporting is now available online and project reporting is also available with 100 percent of applicants now using OWEB’s online database.

Table 2. The full proposal includes the following investments for the 2013-2015 Biennium:

Element	Funding Source			Total
	Lottery Funds	Federal Funds	Other Funds	
Grants – New	\$51,488,785			\$51,488,785
Grants – Carry-forward		\$2,460,000		\$2,460,000
Total	\$51,488,785	\$2,460,000		\$53,948,785

For future biennia, the fund totals are outlined in Table 1 at the beginning of this document.

Performance

Program performance for the 2013-21 biennia are outlined in the Performance Section at the end of this document.

Program Description

OWEB provides grants to help Oregonians take care of local streams, rivers, wetlands and natural habitat from ridge-top to ridge-top across the state. Community members and landowners use scientific criteria to decide jointly what needs to be done to conserve and improve habitat in the places where they live. OWEB grants are funded from the Oregon Lottery, federal dollars and salmon license plate revenue. OWEB is funded through the Lottery as a result of a constitutional ballot initiative passed by voters twice, in 1998 and in 2010. The 2010 initiative made permanent the funding for watershed restoration purposes.

Clients and partners include hundreds of local stewardship organizations including watershed councils, soil and water conservation districts, land trusts and other non-governmental organizations; landowners; tribal governments; cities and counties; and schools and universities. The largest number of grants are offered every six months on a statewide basis, with rigorous technical review from panels of experts. In addition, staff work with specific program areas including Special Investment Partnerships (Deschutes, Willamette and Klamath), and the Whole Watersheds Restoration Initiative to take grant offerings on an even more flexible schedule to match watershed investment priorities and timelines. OWEB also offers a program that processes small grants year-round in 30 days or less.

Program Justification and Link to 10-year Outcomes

OWEB’s mission is to help protect and restore healthy watersheds and natural habitats that support thriving communities and strong economies. OWEB’s Capital Construction Program invests in projects through local community organizations to implement the Governor’s 10-Year

Outcomes in the Healthy Environment Outcome area. In particular, OWEB's grant programs directly support the following outcome areas:

Strategies 1 & 2: 1. Invest in programs that improve air and water quality; and 2. Invest in programs that conserve, protect and restore key watersheds, stabilize populations of fish and wildlife species and improve forest and rangeland health.

- OWEB grant funds support on-the-ground improvements of land and water including dam removal, irrigation efficiency, habitat for native fish and wildlife populations and land protected for native fish and wildlife. Landowners and local organizations assess needs in their communities and leverage OWEB investments with other state, federal and private dollars to achieve identified outcomes.

Strategy 4: Build great communities for a growing population.

- OWEB grants fuel an emerging restoration economy in local communities. According to a 2009 research project from the University of Oregon, every \$1 million investment in habitat restoration creates 15-24 total jobs. OWEB grant funds are used to hire the technical experts who design and implement projects. These people then hire field crews, and buy or contract goods and services they need. The study demonstrated that on average, more than 90 cents of every OWEB grant dollar is spent at local businesses, most of which are small and with less than \$1 million in annual revenue.

Strategy 5: Improve the effectiveness and efficiency of natural resources management in Oregon, and provide a stable base for addressing existing and emerging resource challenges.

Strategy 5.2: Develop new and more efficient ways to achieve desired environmental outcomes that complement traditional regulatory and enforcement approaches.

- OWEB grants offer a meaningful alternative to traditional regulatory mechanisms by improving habitat conditions through voluntary, cooperative means, which results in conservation work that exceeds the regulatory bar. In addition, Oregon is a national leader in the development outcomes for environmental projects. Ecological values and ecosystem services have a clear and direct relationship to OWEB's mission to protect and restore Oregon's watersheds and support the socio-economic health of its communities. OWEB's grant investments have supported and leveraged additional funds to operationalize ecosystem services markets in the Willamette Valley and the Upper Klamath Basin.

Strategy 5.3: Empower communities to identify and act on environmental and economic challenges and opportunities associated with the state's natural resources, and develop more effective decision-making tools that foster broader engagement in management decisions.

- OWEB investments in local capacity grants to watershed councils and soil and water conservation districts provide critical local infrastructure to deliver clean water, healthy land and fish and wildlife habitat projects throughout the state. Through its local partners, OWEB can flexibly deliver funding to complete projects that are led by community members, supported locally, and whose resulting investments leverage jobs and other resources within the region.

Strategy 5.4: Develop sustainable funding for environmental and natural resources efforts and maintain the role of natural resource industries in Oregon's economy

- Pacific Coastal Salmon Recovery Funds provide additional resources for Oregon to invest in projects on-the-ground and key agency programs. OWEB has been very successful in achieving outcomes identified by the National Marine Fisheries Service for its funds,

currently delivering the majority of the program's investments for the entire Pacific Northwest. In addition, OWEB has been successful in receiving and/or leveraging federal funds for projects and capacity through the Natural Resources Conservation Service, U.S. Fish and Wildlife Service, U.S. Forest Service, and Bureau of Land Management among others.

- OWEB also makes available monitoring and research grants to help local communities develop effective decision-making models and to adaptively manage current projects while improving understanding for future investments. Information from these grants is available statewide, which allows local organizations to learn from each other as they implement increasingly more sophisticated restoration projects.

Program Performance

Past performance, and future performance are outlined below. Incremental steps to achieve outcomes are provided in the PFT response memo.

Past Performance

Since 1999, OWEB has provided nearly 6,000 grants to local volunteer efforts to keep Oregon's water clean and habitats healthy. About 60 percent of the funds invested go directly to on-the-ground improvements of land and water such as native plantings, dam removals, irrigation efficiencies, streams and rivers made accessible to fish, and land protected for native fish and wildlife. The other 40 percent of invested funds support activities such as project development and design, the organizational capacity of local watershed councils and soil and water conservation districts, landowner outreach, landscape scale effectiveness monitoring and project monitoring, and technical workshops. Through these grant investments, Oregonians have restored nearly 2,900 miles of streams, made nearly 4,000 miles of stream habitat accessible for fish, and helped landowners improve the condition of over 750,000 acres.

OWEB's tracking and reporting of program performance has shown excellent results compared to similar programs in other states. Since 2000, OWEB, along with other entities from five other western states and tribes, has reported annually to the National Marine Fisheries Service on the use of PCSRF funds to implement habitat restoration projects for salmon recovery. The reports show that Oregon has accomplished significantly more on-the-ground work than other PCSRF recipients. For example, among all reporting entities, Oregon has carried out 96 percent of the total acres of uplands treated; 96 percent of the total wetland acres created; 85 percent of the total wetland acres treated; 88 percent of the total riparian acres treated; 92 percent of the total streambank miles treated; and 91 percent of the total miles of stream protected, many of these accomplishments are the direct result of or related to the actions of OWEB's programs. These numbers include work from the State of Washington, which has had a similar amount of total funding as OWEB during the same reporting period but with fewer accomplishments in the same activities.

In addition, OWEB's own effectiveness monitoring studies and partnerships with other agencies have demonstrated improving stream flows, better access to important habitat provided to fish, increasing stream flows in water limited areas, healthier rangeland conditions, increasing trends in fish populations over time have all been provided as the result of focused investments through grant programs over the past 15 years.

Future Performance and Incremental Steps to Achieve Outcomes

In 2010, the OWEB Board approved an agency strategic plan. Also in 2010, Oregon voters approved Constitutional Ballot Measure 76. This measure provided permanent funding through the Lottery for watershed restoration. This, combined with the Governor's 10-Year budget process and the initiation of a new "Oregon Plan," has resulted in the Board developing a Long Term Investment Strategy for agency investments, which will drive funding over the long-term. Incremental steps to achieve outcomes are provided below in the context of these items.

Outcomes by 2021

OWEB estimates that, through its local investments with partners, the agency will improve the condition of an additional 550,000 acres between 2013 and 2021. The type of habitat improvements targeted will be based on the focus of the Governor's Oregon Plan and the Board's Long-Term Investment Strategy development. It is estimated that local partners will also improve an additional 2,000 miles of stream habitat based on prioritized needs. While these are lower targets than in the agency's last 10 years, local partners are developing projects that are increasingly complex, requiring additional dollars per project to address multiple ecological outcomes on the same acreage. In addition, many of these projects are implemented with federal dollars that are not guaranteed in future biennia. So, while acreage amounts may decrease, it is expected greater environmental outcomes may be achieved. These estimates assume the same or slightly increased OWEB funding and are contingent on the Governor's priorities, the development of an integrated conservation strategy across all agencies and the Board's Long-Term Investment Strategy.

Enabling Legislation/Program Authorization

Through Ballot Measure 76 (2010), Article XV, Sections 4 and 4(b) of the Oregon Constitution dedicate 7.5 percent of Lottery Fund revenues to support activities associated with the restoration and protection of habitat to support native fish and wildlife and water quality. Measure 76 dedicates at least 65 percent of the Lottery Funds to conservation grants. Section 4(b) sets forth that one state agency is to administer grant funds from this authorization. Oregon statutes designate OWEB as that agency. Enabling legislation and program authorization are provided for under ORS 541.890-.972 and OAR Chapter 695.

Funding Streams

The Capital Construction program is primarily funded by Measure 76 Lottery Funds. Carry forward federal funds from the U.S. Fish and Wildlife Service Coastal Wetlands Program are also included in this program area.

Significant Proposed Program Changes from 2011-2013

Funds for the agency's grant program are not considered as a part of Current Service Level, so are added to the budget as a new line item each biennium based on anticipated Lottery revenues. In addition, the agency carries forward lottery revenues that are committed through grants but not yet expended, as well as a limited amount of federal U.S. Fish and Wildlife Service funds in the same category.

Appendix B-2 Program Funding Team Phase 2 Buy Sheet

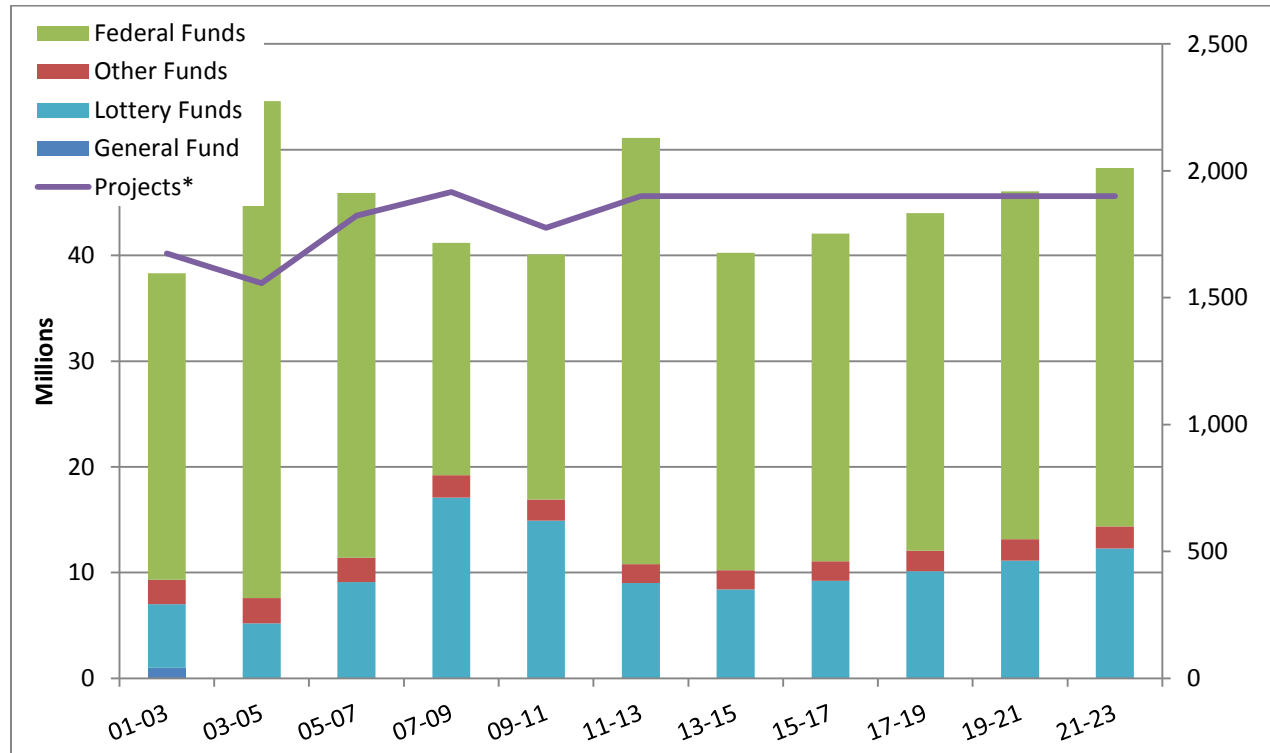
Oregon Watershed Enhancement Board: Agency Operations

Primary Outcome Area: Healthy Environment

Secondary Outcome Area: Economy and Jobs

Program Contact: Tom Byler, Oregon Watershed Enhancement Board Director, 503-986-0180

Table 1.



*Applications reviewed and agreements executed, estimated for 2011-13 and subsequent biennia.

Executive Summary

OWEB implements grant programs to improve and enhance Oregon’s clean water, native fish and wildlife habitat, and large, connected natural areas. OWEB’s operations funding supports delivery of grants that help local community organizations across Oregon as they implement, track and monitor science-based projects with private landowners that restore land, water and fish and wildlife habitat, and provide Oregon jobs.

Program Funding Request

OWEB’s staff effectively deliver grants, manage the operations of a 17-member board and stay abreast of emerging funding opportunities while reporting accomplishments to the sources of state and federal OWEB funding. Staff and support costs for OWEB’s programs makes up just over seven percent of OWEB’s full budget – a very efficient grant delivery system as compared with private foundations nationally and is based on a model that combines staff and contracted services to deliver services effectively and efficiently. The agency utilizes staff for those positions that need strong institutional knowledge and mission focus and contracted services are used where specific expertise is needed to quickly address key needs with lower overhead costs.

Throughout 2012, OWEB has and continues to work with its Board and stakeholders to develop a comprehensive Long-Term Investment Strategy – the implementing vehicle for the Constitution and OWEB Strategic Plan. Because of its flexible investment model and strategic focus, OWEB and its grant programs will assist in achieving of the 10-Year Healthy Environment Outcomes.

Table 2. The full proposal includes the following investments for the 2013-15 Biennium:

Element	Funding Source			Total
	Lottery Funds	Federal Funds	Other Funds	
Grants (includes carry-forward, interest, IMST and LCEP)	\$763,514	\$21,132,151	\$1,626,725	\$23,522,390
Agency Operations (includes staff and contracted services)	\$5,937,309	\$880,166	\$226,006	\$7,043,481
Funds transfer to ODFW		\$8,276,445		\$8,276,445
Total	\$6,700,823	\$30,288,762	\$1,852,731	\$38,842,316

For future biennia, the fund totals are outlined in Table 1 at the beginning of this document.

Performance in OWEB’s operations funding is directly tied to delivery of the grant program. As such, program performance for the 2013-21 biennia is outlined in the Performance Section of OWEB’s Capital Construction (grant) bid package.

Program Description

OWEB’s operations funding provides the delivery mechanism for grants to help Oregonians take care of local streams, rivers, wetlands, uplands, forests and other natural habitat from ridge-top to ridge-top across the state. In coordination with other Oregon, federal and local natural resource agencies, OWEB staff lead competitive grant programs that invest in the most effective, science-based actions to support habitat improvements for clean water and healthy natural resources; track results of the projects; and report on results.

The agency is led by a 17-member citizen board drawn from the public, tribes and federal and state natural resource agency boards and commissions. Since 1999, OWEB has provided nearly 6,000 grants to local volunteer efforts to keep Oregon’s water clean and habitats healthy. The agency is funded through the Lottery as a result of a constitutional ballot initiative passed by voters twice, in 1998 and again in 2010. The 2010 initiative made permanent the funding for watershed restoration programs and operations to support their implementation. OWEB also administers federal Pacific Coastal Salmon Recovery Fund (PCSRF) grant funds, managing these funds through its competitive grant program to support habitat improvements to help recover threatened and endangered species.

Clients and partners include hundreds of local stewardship organizations including watershed councils, soil and water conservation districts, land trusts and other non-governmental organizations; landowners; tribal governments; cities and counties; and schools and universities. The largest number of grant types is offered every six months on a statewide basis, with rigorous technical review from panels of experts. In addition, staff work with specific program areas including Special Investment Partnerships (Deschutes, Willamette and Klamath), and the Whole Watersheds Restoration Initiative to take grant offerings on an even more flexible schedule to

match watershed investment priorities and timelines. OWEB also offers a program that processes small grants year-round in 30 days or less.

OWEB staff take a lead role in monitoring and reporting results of agency investments and actions undertaken in support of the Oregon Plan for Salmon and Watersheds across the state-family of natural resource agencies. Staff work jointly with federal and state agencies to coordinate effectiveness monitoring at a watershed scale, providing both funding and internal analysis functions to deliver an effective, cross-agency monitoring outcome. Staff also develop online capabilities to view actions, results and outcomes through the agency's website.

Cost drivers for the program include the number of applications for staff to process and review and the number of open grants that require tracking and oversight. OWEB continues to explore alternative delivery mechanisms by investing in new technology to improve services to clients and agency efficiency. Recent improvements include online reporting and grant amendments.

In addition to OWEB's core operations, the agency also funds the following, as directed by the Legislature:

- The Independent Multidisciplinary Science Team (IMST) provides scientific oversight to the Oregon Plan for Salmon and Watersheds. Through technical reports and reviews, the IMST assesses the best available science as it pertains to salmonid and watershed recovery and the management of natural resources for state natural resource agencies, the Governor's Natural Resources Office, and legislative committees.
- The Lower Columbia Estuary Partnership (LCEP) protects and restores the nationally significant lower Columbia River estuary with on-the-ground improvements and education and information programs. Its mission is to preserve and enhance the water quality of the estuary to support its biological and human communities. It is the only two-state partnership focused on the Lower Columbia River system.

Program Justification and Link to 10-year Outcomes

Below are specific performance ties to the Governor's Healthy Environments Outcome Area.

Strategies 1&2: 1. Invest in programs that improve air and water quality; and 2. Invest in programs that conserve, protect and restore key watersheds, stabilize populations of fish and wildlife species and improve forest and rangeland health.

- OWEB staff assist community organizations to develop proposals for OWEB investment. The agency's regional program representatives are part of an agency team that manages existing and new grants, ensuring that public dollars are appropriately invested and managed.
- OWEB has a strong reporting and effectiveness monitoring program. Staff provide core monitoring services to the agency and local restoration partners and manage partnerships with other agencies and organizations to monitor in a way that informs future grant selection, and identify landscape-scale monitoring to help local groups adaptively manage investments.
- As Oregon matures in its restoration investments, funders partner with local organizations to achieve restoration outcomes that are more complex. This requires a different relationship between the funder and local restoration practitioners. The agency's partnership positions support work in key watersheds across the state. As connections with other funders mature, OWEB staff foster those connections to advance outcome-based restoration investments.

- Oregon continues to lead the nation in the implementation of projects that clearly identify environmental outcomes. OWEB's dedicated staff connect the dots between local restoration projects, ecological outcomes and local economic benefits.

Strategy 4: Build great communities for a growing population.

- OWEB's investments are all implemented through local restoration partners. Helping to identify and work with landowners to implement restoration projects takes extensive outreach. OWEB staff work closely with organizations to improve their outreach efforts.

Strategy 5: Improve the effectiveness and efficiency of natural resources management in Oregon, and provide a stable base for addressing existing and emerging resource challenges.

Strategy 5.1: Coordinate natural resources management plans to sustain the environmental, economic and social well-being of Oregon for current and future generations.

- Staff engage with state and federal agencies in the development of plans. Staff coordinate review of grant applications by other agencies to ensure that all natural resource agencies identify those projects that meet targeted conservation priorities and are likely to succeed.

Strategy 5.2: Develop new and more efficient ways to achieve desired environmental outcomes that complement traditional regulatory and enforcement approaches.

- OWEB grants offer a meaningful alternative to traditional regulatory mechanisms by improving habitat conditions through voluntary, cooperative means, which results in conservation work that exceeds the regulatory bar. In addition, Oregon is a national leader in the development outcomes for environmental projects. OWEB has invested in and led numerous effective projects to develop and expand environmental markets.

Strategy 5.3: Empower communities to identify and act on environmental and economic challenges and opportunities associated with the state's natural resources, and develop more effective decision-making tools that foster broader engagement in management decisions.

- OWEB helps local communities develop more effective monitoring and science-based decision-making tools that foster broader engagement in restoration outcomes.
- OWEB's grant programs are built on local community engagement and empowerment. OWEB locates staff in regions around the state to facilitate close coordination and working relationships with local communities and landowners, and provide for tracking and monitoring of results of OWEB investments.

Strategy 5.4: Develop sustainable funding for environmental and natural resources efforts and maintain the role of natural resource industries in Oregon's economy.

- OWEB has been very successful in achieving outcomes identified by the National Marine Fisheries Service for its funds, currently delivering the majority of the PCSRF accomplishments for the entire Pacific Northwest. In addition, OWEB has received or leveraged other federal funds for projects and capacity.

Program Performance

The operations funding for OWEB supports implementation of the agency's grant program (Capital Construction). As such, past and future performance are outlined in the Capital Construction bid package.

Enabling Legislation/Program Authorization

Ballot Measure 76 (2010), Article XV, Sections 4 and 4(b) of the Oregon Constitution dedicates 7.5 percent of Lottery Fund revenues to support activities associated with the restoration and protection of habitat to support native fish and wildlife and water quality. Section 4(b) sets forth that one state agency is to administer grant funds from this authorization. The Oregon Legislature designated OWEB as that agency. Enabling legislation and program authorization are provided for under ORS 541.890-.972 and OAR Chapter 695.

Funding Streams

OWEB is funded by Lottery, federal funds and Salmon License Plate revenues. Over the years, OWEB has also served as a pass-through for Lottery and federal funds to other agencies.

Significant Proposed Program Changes from 2011-2013

This proposal was developed to complement the Long-Term Investment Strategy in development by the OWEB Board. Resources were identified by connecting Board priorities with the Governor's 10-year outcome-based budget. Increased investments will ensure that OWEB has the capacity to deliver grants and leverage other funds effectively over the next 10 years. The proposal is an increase over the Legislatively Adopted Budget from 2011-2013, and is outlined below in two packages – Continuity and Enhancement.

With the passage of Ballot Measure 76 in 2010, grant program funding through the Oregon Lottery was made permanent. With this shift in the agency's funding horizon, the Board is developing a Long-Term Investment Strategy. As grant funding becomes more strategic, projects more complex and partnerships more critical to leverage funds, OWEB continues to re-evaluate its operations to deliver a twenty-first century grant-making model.

OWEB Operations – The agency's basic staff structure helps the organization to effectively deliver grants, manage the operations of a 17-member board and stay abreast of emerging funding opportunities while reporting accomplishments to the sources of OWEB funding – both federal and state. The resources identified are a key part of OWEB's plan to address the Governor's Healthy Environment Outcome area.

Continuity Package – This package continues the agency's ability to deliver and improve services including monitoring and long-term protection program implementation through contracted services, and continues the agency's ability to meet reporting requirements associated with federal investments that currently make up one-third of the agency's grant capacity. The package supports grant investments in the Willamette Basin – a Special Investment Partnership that has brought private leverage from Meyer Memorial Trust to add to state grant dollars. Through a technical adjustment proposed to the Governor's budget, the package also continues Oregon's leadership in delivery of alternative means to achieve environmental outcomes in lieu of regulation, and supports community-based watershed restoration.

Enhancement Package – This package enhances the agency's ability to invest in partnerships that leverage other resources for landscape-scale restoration.

Total cost for these investments is \$735,000 of federal Pacific Coastal Salmon Recovery Funds and Bonneville Power Administration funds. These funds will be invested in existing limited duration staff, and one new limited duration staff to achieve the above-identified functions.

Office of the Secretary of State

Kate Brown
Secretary of State

Brian Shipley
Deputy Secretary of State



Audits Division

Gary Blackmer
Director

255 Capitol St. NE, Suite 500
Salem, OR 97310

(503) 986-2255
fax (503) 378-6767

January 7, 2013

Received by OWEB

JAN 10 2013

Tom Byler, Executive Director
Oregon Watershed Enhancement Board
775 Summer Street NE, Suite 360
Salem, Oregon 97301

Dear Mr. Byler:

We have completed audit work of selected financial accounts at the Oregon Watershed Enhancement Board (board) for the year ended June 30, 2012.

This audit work was not a comprehensive audit of the board. We performed this audit work as part of our annual statewide financial audit. The objective of the statewide audit was to express an opinion on whether the financial statements contained in the State of Oregon's Comprehensive Annual Financial Report were fairly presented, in all material respects, in conformity with generally accepted accounting principles.

In planning and performing our audit of the selected financial accounts at the board as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the board's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements of the State of Oregon, but not for the purpose of expressing an opinion on the effectiveness of the board's internal control. Accordingly, we do not express an opinion on the effectiveness of the board's internal control.

We audited the following accounts at the board and determined their fair presentation in accordance with generally accepted accounting principles in relation to the statewide financial statements.

SFMA Account	Description	Audit Amount
<u>GAAP Fund 1107 – Environmental Management Fund</u>		
0070	Cash on Deposit with Treasurer	\$43,763,707
0300	Federal Revenue	12,516,755
6xxx	Special Payments	34,261,520
13xx	Transfers In	47,078,243
18xx	Transfers Out	6,150,815

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 combination of deficiencies, 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 combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

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 significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Other Matter

We identified the following other matter that is an opportunity to strengthen internal controls but is not considered to be a significant deficiency or a material weakness. This other matter does not require a written response from management.

Special Payment Expenditure Accruals

Generally, governmental funds accrue expenditures and related liabilities in the fiscal year in which the government incurs the liability. The Oregon Accounting Manual refers to a 90 day accrual period; state agencies are to estimate and accrue expenditures that are to be paid within 90-days of the fiscal year end. Board management has not developed a methodology to estimate and accrue special payment expenditures for grant reimbursements processed within 90-days of the fiscal year end. Management has a method to account for expenditures processed up to month 13 close, but does not estimate expenditures after the close and before September 30. We tested a sample of special payments processed in this time period and found that many related to fiscal year 2012. While our results did not indicate a significant misstatement for fiscal year 2012, there is a potential for a significant misstatement to occur without an adequate accrual methodology in place.

We recommend board management develop a methodology to estimate special payment expenditures incurred and paid within 90-days of fiscal year end and determine whether an accrual is necessary.

This communication is intended solely for the information and use of management, others within the organization, and the Oregon Watershed Enhancement Board and is not intended to be and should not be used by anyone other than the specified parties.

Tom Byler, Executive Director
Oregon Watershed Enhancement Board
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We appreciate your staff's assistance and cooperation during this audit. Should you have any questions, please contact Alan Bell or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION



Julianne Kennedy, CPA
Audit Manager

JK:AJB:nmj

cc: Meta Loftsgaarden, Deputy Director
Cindy Silbernagel, Fiscal Manager
Dan Thorndike, Co-Chair
Eric Quaempts, Co-Chair
Sandra Todd, Fiscal Manager, Water Resources Department
Michael J. Jordan, Director, Department of Administrative Services