

Secretary of State AUDIT REPORT

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Oregon State Treasury: Review of Internal Controls July 1, 2000 to June 30, 2001



Bill Bradbury, Secretary of State
John Lattimer, Director, Audits Division

Summary

PURPOSE

This audit took into consideration AICPA Statement on Auditing Standard (SAS) 70, and as amended by SAS 88. The purpose of our audit was to evaluate Oregon State Treasury's (Treasury) internal controls relating to processing certain state agency's transactions. Our objective was to determine whether state agencies can rely upon information provided by Treasury in preparing their financial statements.

RESULTS IN BRIEF

- State agencies can rely on financial information provided by Treasury in preparing their financial statements.

- Although we did not identify any material weaknesses in internal controls, Investment Accounting management does not always ensure that staff follow established policies and procedures, and some policies and procedures do not reflect current processes.

RECOMMENDATIONS

Investment Accounting management should update policies and procedures to reflect current practices and ensure that staff follow established policies and procedures.

AGENCY RESPONSE

Treasury generally agrees with the recommendations.

Introduction/Background

Oregon State Treasury (Treasury) is organized to carry out the responsibilities of the State Treasurer, an elected official, whose duties are outlined in the *Oregon Constitution*, Article VI, and *Oregon Revised Statutes*, Chapter 178. Treasury is the custodian of most of the state's cash and investments. It performs banking functions for state agencies such as receiving and disbursing state funds, and investing cash not immediately required for expenditure. In addition, Treasury manages the state's investments under the supervision of the Oregon Investment Council. It also coordinates the issuance and redemption of the state's bonded debt.

Audit Results

Investment Accounting— Daily Processing and Portfolio Control

The Finance Division (division) through its Investment Accounting section provides investment accounting services for all state agencies. Investment Accounting is

responsible for recording the purchase, sale, expense, and income for approximately 2,000 investments. This section also is responsible for reporting those investments and investments held by external investment managers, comprising a multi-billion dollar portfolio.

The Investment Accounting section has established various policies and procedures relating to the accounting services provided to other state agencies. For example, staff enters basic information on each investment into the computer system, including an identification number, broker name, security type, description, price, interest rate and investment rating. When this information needs to be updated, a form is completed with all the relevant information and signed by authorized staff.

Investment Accounting also accounts for expenses incurred by the division that are charged to specific investments. Those expenses can include legal fees, consultants' fees, advisors' fees and employee travel reimbursements. When a request for transfer of funds is made, a form is completed and

approved by authorized staff. Investment Accounting staff is responsible for verifying that the expense was not previously paid and was properly authorized.

We reviewed relevant policy and procedures, and tested selected transactions. The objective of our review was to:

- Determine whether Treasury has established adequate controls over investments.
- Verify that transactions have been properly recorded and processed in accordance with applicable accounting principles.
- Review the investment portfolio valuation and verify that the valuation was appropriate.

Analysis and Conclusion

Investment Accounting staff does not always follow established policies and procedures when making changes in the system to investment information, or when reviewing requests for transmitted funds to reimburse expenses. Specifically, for the selected transactions reviewed, Investment Accounting staff:

- Did not complete the required form when making changes to investment information for two of 15 changes.
- Did not review five of 18 requests for transmitted funds to ensure that the request was properly authorized and that expenses had not been previously paid. These requests were wires or Automated Clearing House (ACH) transfers.

The situation exists because management did not ensure that staff consistently follow policies and procedures, and some policies and procedures do not reflect current processes.

Although all the investment changes and requests for funds made were subsequently found to be accurate, this situation increases the risk that errors could be made and go undetected.

We recommend that management update policies and procedures to reflect current processes and ensure that staff follows established policies and procedures.

Oregon Short-Term Fund, Fixed Income Investment, and Equity Investment

The Investment Division is responsible for the productive and prudent investment of all state funds entrusted to the state for management. Investments supervised by Treasury staff include trust funds, constitutional bond funds and those funds not necessary to meet current state or local demands.

We reviewed relevant policy and procedures, and tested selected transactions. The objective of our review was to:

- Determine whether Treasury has established an investment policy

and monitoring system as well as controls in place to safeguard assets.

- Verify that transactions were conducted within the investment policy framework.
- Verify that transactions were properly reviewed, authorized, and recorded.

Analysis and Conclusion

Treasury has established an adequate policy and monitoring system as well as controls intended to safeguard assets. Transactions were made according to policy and were properly reviewed, authorized and recorded.

Cash Receipts/Disbursement Process and General Fund Accounting

The Finance Division through its Cash Management Section is the central bank for all state agencies. Virtually all money for the state, via paper or electronic means, travels through this section. The Finance Division also loans funds to state agencies and is responsible for establishing and closing funds.

We reviewed relevant policy and procedures, and tested selected transactions. The objective of our review was to:

- Determine whether Treasury has established adequate controls over cash receipts and cash disbursements.
- Verify that transactions are properly approved, recorded, classified, and timely reported to state agencies.

Analysis and Conclusion

Treasury has established adequate controls over cash and related transactions were properly approved,

recorded, classified, and timely reported.

Objectives, Scope and Methodology

This audit took into consideration AICPA Statement on Auditing Standard (SAS) 70, and as amended by SAS 88. The purpose of our audit was to evaluate Oregon State Treasury's (Treasury) internal controls relating to processing certain state agency's transactions. Our objective was to determine whether state agencies can rely upon information provided by Treasury in preparing their financial statements. Specifically, we identified internal controls relating to:

- The control environment, including the tone of the organization and overall operating style.
- Risk assessment activities used to identify, analyze and manage potential risks.
- Control activities such as Treasury's ability to ensure that management's directives are carried out.
- Information and communication methods used to record, process, summarize and report the organization's transactions.
- Monitoring activities intended to maintain effective internal controls.

In addition, we performed test of controls for selected transactions.

Our audit did not include a review of issuance and redemption of bonded debt as bonds are audited at the agency level.

This audit was conducted from April to June 2001 in accordance with generally accepted government auditing standards.

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August 1, 2001

John Lattimer, Director
Secretary of State Audits Division
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Dear Mr. Lattimer

Treasury generally agrees with the recommendations. However the lack of initials documenting Investment Accounting's review of the 5 out of 18 requests for payment of investment expenses is not a significant issue. This is not an authorization issue. The Investment Officer and an Authorized Signer did authorize these payments before they were made. The Banking Section reviews all requests for electronic funds transfers for such appropriate authorization. Investment Accounting does attempt to verify that the expense had not been previously paid, however, the primary responsibility for avoiding duplicate payment resides with the authorizing investment officer. We agree that in these five instances Investment Accounting did not follow its procedure. We would like to thank the Audits Division for bringing this issue to our attention. We recognize the limited value and redundancy of this control, and will review the procedure and modify or delete it as appropriate.

For the two instances in which investment information was changed without the completion of a change form, the two cases noted did not have financial implications. We agree that investment information was changed, apparently without completing a change form. We will review the existing procedure to determine if non-financial changes should require the completion of a change form, change the procedure as needed, and work with our staff to ensure that the procedure is followed in the future.

In conclusion, we will modify or delete our policies, provide training, and work with staff, as necessary to ensure that we are in compliance with our procedures for the next SAS 70 audit.

Sincerely,

Linda Haglund
Deputy State Treasurer

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The courtesies and cooperation extended by the officials and staff of the Oregon State Treasury were commendable and much appreciated.

Auditing to Protect the Public Interest and Improve Oregon Government

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The attached report presents the results of our Statement of Auditing Standards (SAS) 70 Review of Internal Controls of the Oregon State Treasury (Treasury). This review was to evaluate Treasury's internal controls relating to processing certain state agency's transactions. Our objective was to determine whether state agencies can rely upon information provided by Treasury in preparing their financial statements.

Our review shows that state agencies can rely on financial information provided by Treasury in preparing their financial statements. Although we did not identify any material weaknesses in internal controls, Investment Accounting management does not always ensure that staff follow established policies and procedures, and some policies and procedures do not reflect current processes.

OREGON AUDITS DIVISION

John N. Lattimer
Director

Fieldwork Completion Date:
June 29, 2001