

# Secretary of State **AUDIT REPORT**

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## **Oregon State Treasury: Review of Internal Controls July 1, 2001 to June 30, 2002**



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### **Summary**

#### **PURPOSE**

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. This audit took into consideration AICPA Statement on Auditing Standard (SAS) 70, as amended by SAS 88 and SAS 94.

#### **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, we did note other issues that were reported to Treasury management in a separate letter, No. 170-2002-10-01.

### **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, 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.

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

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

#### **Analysis and Conclusion**

Treasury has established adequate controls over Investment Accounting services. Related transactions were properly approved, recorded and processed. In addition, Treasury's investment portfolio valuation appears appropriate.

#### **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 government demands.

We reviewed relevant policy and procedures and tested selected transactions. The objectives of our review were to:

- Determine whether Treasury has established an investment policy and monitoring system with adequate controls 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. Controls intended to

safeguard assets are adequate and working as intended. Transactions were made according to the policy framework 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 state money travels through this section via paper or electronic means. 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 were properly approved, recorded, classified and reported to state agencies in a timely manner.

### **Analysis and Conclusion**

Treasury has established adequate controls over cash. Related transactions were properly approved, recorded, classified, and reported in a timely manner.

### **Objectives, Scope and Methodology**

This audit took into consideration AICPA Statement on Auditing Standard (SAS) 70, as amended by SAS 88 and SAS 94. The purpose of this audit was to evaluate Treasury's internal controls relating to processing certain state agency's transactions. The 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, which establishes the tone of the organization including management's philosophy, integrity and ethical values, and overall operating style.
- Risk assessment activities used to identify, analyze and manage potential risks relevant to

financial reporting. Potential risks could include changes in the operating environment, new personnel and new technology.

- Control activities, which are the policies and procedures that help ensure management directives are carried out.
- Information and communication. Information consists of the methods used to initiate, record, process, and report entity transactions. Communication is the ability to communicate financial reporting roles and responsibilities.
- Monitoring, which are management's processes of monitoring controls to determine whether they are operating as intended and that they are modified for changes in conditions.

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 June to August 2002 in accordance with generally accepted government auditing standards.

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

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