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*Auditing for a Better Oregon*

December 28, 2001

Ann Hanus, Director  
Division of State Lands  
775 Summer Street NE  
Salem, Oregon 97301-1279

Dear Ms. Hanus:

We have completed the review of internal controls over the Division of State Lands' Trust Property section and have provided the results in Report No. 2001-56. We noted additional conditions that warrant your attention, but did not merit formal reporting. These conditions and our recommended actions are described below.

### **Safe Deposit Boxes**

#### Issue

Six safe deposit boxes declared abandoned in 1996 by U.S. Bank, Corvallis Branch, and included on the bank's 1998 report, were not remitted to the division in 1998. Four of the six boxes were again declared abandoned in 1998 and included on the bank's 2000 report. The contents of these four boxes were remitted to the division in 2000. The remaining two boxes, owners Thomas Chandler and Susan Cook, were excluded from the 2000 report. The division has no record that it received the contents of these two boxes.

#### Recommendation

The division should follow up with the bank to determine the status of the Chandler and Cook boxes. Enclosed are copies of documents we obtained from the bank.

### **Estates**

#### *Small Estates Filing Dates*

#### Issue

The estate auctions we reviewed included seven small estates from which items were sold prior to the court filing date of the Small Estates Affidavit. Although the dollar amounts were not significant—approximately \$4,000 for the seven estates—the division may not be complying with state law when it sells items prior to the court filing date.

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Management Letter No. 141-2001-12-01

### Recommendation

The division should consult with legal counsel to determine if it is in compliance with state law when selling items from small estates prior to the filing date of the Small Estates Affidavit. If selling items prior to the court filing date is not permissible, the division should discontinue this practice.

### *Interest Allocation*

#### Issue

The method used to allocate interest to estates does not equitably distribute the interest when some estates close during the month. Interest earned during a month is allocated to estates that are open on the date the allocation is made. Each estate's share is determined by calculating the ratio of each estate balance to the total balance of open estates and applying that ratio to the total amount of interest earned. The resulting share is added to each open estate. As a result, estates that closed during the month are not included in the allocation even though their balances contributed to the total interest earned.

### Recommendation

The division should develop a method to more equitably allocate the interest earned on open estates.

## **Securities**

### *Sale of Hewlett-Packard Shares*

#### Issue

In 1996, 60 shares of Hewlett-Packard, remitted to the division on holder report A897-9501, were applied to a shortage caused in 1995 when 100 shares from holder report A90-9302 were sold for \$6,744. The transfer agent canceled the 1995 sale because the shares had been reported lost by the owner and replaced in 1991. The shortage occurred because the division had already received proceeds for the subsequently cancelled sale. The division did not return the funds to the stockbroker. Subsequently, in 1996, Hewlett-Packard stock split two-for-one, leaving the division owing 80 shares instead of 40. In 1997, the stockbroker funded the purchase of 80 shares of Hewlett-Packard for \$4,187 to clear the account.

The division has not yet resolved the funding issues with the stockbroker. The division applied \$4,052 (approximately 60 percent) of the \$6,744 to the A897-9501 holder report to fund the claims. However, it did not appear that the value of the stock was considered at the time of this allocation. The remainder was placed in the over/under account, but ownership of this balance has not been determined. In 1998, the division repurchased 22 shares of Hewlett-Packard as a result of claims from the A897-9501 holder report.

### Recommendation

The division should work with the stockbroker to resolve the funding issues, taking into consideration the value of the stock when significant events occurred or decisions were

made. The division should also review the allocation of funds to holder report A897-9501 to ensure that proper amounts were assigned to owners.

#### *Unearned Interest*

##### Issue

For three months in 1998, the division had sizeable balances in its cash account with its stockbroker, yet no interest was earned on the funds. The funds remained in the non-interest bearing cash account instead of being transferred into the money fund, an interest-bearing account. Daily balances averaged more than \$800,000 in June, \$400,000 in July and \$100,000 in August. We noted other periods, subsequent to this one, when the division did not earn interest on its cash balances, although balances during these periods were not as significant as in the three-month period in 1998.

##### Recommendation

The division should work with the stockbroker to determine if proper amounts of interest were received on funds in its cash account, specifically during the period from June through August 1998. Additionally, the division should ensure that future cash holdings are received from the stockbroker as soon as reasonably possible. The division should ensure that cash remaining with the stockbroker for legal reasons be transferred to the money fund to earn interest.

#### **Over/Under Account**

##### Issue

The division uses an over/under account to record differences in balancing trust property claims, including recording overpaid claims, and gains or losses from repurchasing securities. The reasons for using this account should be examined and use should be kept to a minimum. Our Report No. 2001-56 provides recommendations to eliminate conditions that may prompt staff to use this account.

##### Recommendation

After implementing procedures in response to recommendations in Report No. 2001-56, the division should review the need for the over/under account and ensure that uses are infrequent and minor.

#### **Contracts**

##### *Contract Documentation*

##### Issue

The division could not provide documentation supporting the solicitation, evaluation, and awarding of the 1998-2001 auctioneer contract and the 1999-2001 stockbroker contract. *Oregon Administrative Rule 125-020-0510* specifies what documentation agencies should retain in personal services contract files for a period not less than six years. This documentation should include, among other items, the method used to advertise or notify prospective contractors, the method of evaluating proposals, the results of the evaluation,

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and all information describing how the contractor was selected, including the basis for awarding the contract.

Recommendation

The division should develop procedures to retain contract documentation in compliance with *Oregon Administrative Rule*.

Sincerely,  
OREGON AUDITS DIVISION

Craig M. Stroud, CPA  
Audit Administrator

CMS:brk  
enclosure

c: Michael Greenfield, Director, Department of Administrative Services  
Paddy McGuire, Deputy Secretary of State, Office of the Secretary of State