OFFICE OF THE
SECRETARY OF STATE
Bill Bradbury
Secretary of State

AUDITS DIVISION
Cathy Pollino
Director

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

Auditing for a Better Oregon

January 24, 2003

Jon Mangis, Director
Department of Veterans' Affairs
700 Summer Street NE
Salem, Oregon 97301-1285

Dear Mr. Mangis:

We have completed our financial statement audit of the Department of Veterans' Affairs (department) for the fiscal year ended June 30, 2002. During our audit, we did not identify any reportable conditions related to internal control or to noncompliance with applicable laws and regulations. Professional auditing standards define reportable conditions as matters relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect your ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. We did identify the following issues that we determined were not reportable conditions, but did require management's attention. We previously met with department fiscal staff to discuss these issues.

System Access

The department could improve its management of user access to the department's financial and loan servicing systems to ensure that access is granted based on the users' demonstrated need to view, add or modify system information. A review of the financial system user access reports identified one terminated employee who still had system access, two employees with redundant system access, and one employee whose access was not consistent with his assigned job duties. During our review of the loan servicing system, we identified employees who had access to modify information pertaining to their personal loans and two terminated employees who still had system access. We recommend that the department periodically evaluate its employees' access privileges to ensure that they remain appropriate for current work assignments. We also recommend that transactions and modifications related to employee loan accounts be regularly reviewed as a compensating control.

Loan Origination Fees

Financial Accounting Standards Board (FASB) Statement No. 57 directs that fees collected from borrowers for originating loans be offset with direct costs associated with originating loans, and the difference amortized over the length of the loan if the impact to the financial

255 Capitol Street NE • Suite 500 • Salem, Oregon 97310
INTERNET: Audits.hotline@state.or.us • http://www.sos.state.or.us/audits/audithp.htm

statements is material. The department determined that these fees collected in the current year were immaterial to the financial statements and recognized all associated revenues and expenses in fiscal year 2002. We recommend that the department develop procedures to determine the cumulative financial statement affect of implementing this standard so that they are aware if the financial statements become materially misstated.

Cash Reconciliations

The department could improve its review of cash reconciliations. We reviewed monthly reconciliations associated with the department's two material cash accounts and found that 16 of the 24 reconciliations were not reviewed, and five reconciliations were not reviewed in a timely manner. We recommend that department management ensure that all reconciliations are reviewed in a timely manner.

We will follow up on the department's progress in addressing these issues during our audit of fiscal year 2003 financial statements. Should you have any questions, feel free to contact Ryan Dempster or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Kelly L. Olson, CPA
Audit Administrator

Fieldwork Completion Date:
December 19, 2002

KLO:brk

cc: Bruce Shriver, Chief Financial Officer
Gary Weeks, Director, Department of Administrative Services
John Radford, Administrator, State Controller's Division, Department of Administrative Services
Jean Gabriel, SARS, State Controller's Division, Department of Administrative Services