



Auditing for a Better Oregon

January 21, 2004

Stephanie Hallock, Director
Department of Environmental Quality
611 SW 6th Avenue
Portland, Oregon 97201

Dear Ms. Hallock:

The statewide single audit that included selected financial accounts at the Department of Environmental Quality (DEQ) for the year ended June 30, 2003, has been completed.

This statewide single audit work is not a comprehensive audit of your agency. Instead, this audit permits us to give an opinion on the statewide financial statements contained in the State of Oregon's Comprehensive Annual Financial Report and to report on internal control and the state's compliance with laws and regulations. Regular audits of DEQ will continue on a periodic basis.

The following DEQ accounts and transactions were audited to determine their fair presentation in accordance with generally accepted accounting principles in relation to the statewide financial statements.

SFMA Account	Description	Audit Amount
Environmental Management Fund (Special Revenue)		
0065,0070	Cash	\$123,702,385
0228	Other Non-Business Licenses & Fees	22,375,767
0300	Federal Revenue	28,078,326
0931	Loans Receivable	241,872,450
4500	Professional Services Expenditures	8,161,831
4800	Facilities Rent	4,583,821
3111, 3210, 3263	Payroll Expenditures	40,823,145

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Based on our audit, we did not identify any reportable conditions related to the accounts audited. We did, however, identify two other conditions that are presented in the enclosed Audit Findings and Recommendations Summary accompanying this letter. These conditions are issues of lesser significance that we wanted to communicate to agency management. These conditions do not require a Corrective Action Plan. We will follow up on DEQ's progress in addressing these issues during the next fiscal year audit.

Should you have any questions, feel free to contact Ron Forehand or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Jason M. Stanley CPA
Audit Administrator

JMS:jas

cc: Helen Lottridge, Administrator, Management Services Division
Judy Hatton, Accounting Manager
Gary Weeks, Director, Department of Administrative Services

Audit Findings and Recommendations Summary
Department of Environmental Quality
State Fiscal Year 2003

OTHER CONDITIONS

Reconciliation Between SFMA and OSPA

The Department of Environmental Quality (department) does not perform a reconciliation of reported payroll expenditures between the Oregon State Payroll Application (OSPA) and the Statewide Financial Management Application (SFMA). These reconciliations, which are required by Oregon Accounting Manual (OAM) 45.17.00.PO, increase the reliability of payroll expenditures reported in SFMA.

We recommend the department reconcile payroll expenditures reported in OSPA and SFMA as required in the OAM.

Segregation of Payroll Responsibilities

OAM 45.45.00.PO prohibits agency personnel who have update access in OSPA from having physical access to payroll checks and stubs prior to their scheduled distribution date. Payroll personnel at the department, who have OSPA update access, also sort payroll checks and stubs so that they can be distributed to employees on the published release date. This assignment of duties conflicts with the OAM requirements.

While assigning payroll staff incompatible duties increases the risk that an employee could fraudulently create or alter payroll checks without detection, management has told us that they now perform a detailed review of payroll reports. This detailed review should serve to help mitigate the increased risk. **We recommend** that DEQ management continue to review detailed payroll reports to ensure that only authorized paychecks are distributed.