



Auditing for a Better Oregon

January 19, 2006

Ann Hanus, Director
Oregon Department of State Lands
775 Summer Street NE, Suite 100
Salem, Oregon 97301-1279

Dear Ms. Hanus:

The statewide single audit that included selected financial accounts at Oregon Department of State Lands (department) for the year ended June 30, 2005, has been completed.

This statewide single audit work is not a comprehensive audit of your department. 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 the department will continue on a periodic basis.

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

<u>SFMA Account</u>	<u>Description</u>	<u>Audit Amount</u>
Special Revenue Fund – Common School Fund (GAAP Fund 1113)		
0240	Investments-Designated	\$852,109,586
0245	Investment Valuation Account-Designated	67,749,454
1551	Deposit Liability	198,779,666
2951	System Clearing General Ledger Level Only	0
0810	Income from Investments-Treasury	12,380,570
0830	Net Increase (Decrease) in FV of Investments	64,787,833
6300	Distribution to Counties	40,247,350

Based on our audit, we identified one reportable condition and two other conditions needing corrective action. Our findings and recommendations are presented in the enclosed Audit Findings and Recommendations Summary accompanying this letter.

Management Letter No. 141-2006-01-01

The reportable condition, along with your response, will be included in our Single Audit Report. Including your response with responses from other state agencies satisfies the federal requirement that management prepare a Corrective Action Plan (CAP) covering all reported audit findings. Satisfying the federal requirement in this manner, however, can only be accomplished if the response to the reportable finding includes the information specified by the federal requirement, and only if the response is received in time to be included in the audit report. The following information is required for the response:

1. Your agreement or disagreement with the finding. If you do not agree with the audit finding or believe corrective action is not required, include in your response an explanation and specific reasons for your position.
2. The corrective action planned.
3. The anticipated completion date.
4. The name(s) of the contact person(s) responsible for corrective action.

The other conditions are issues of lesser significance that we wanted to communicate to department management. These conditions do not require a Corrective Action Plan. We will follow up on the department's progress in addressing these issues during the next fiscal year audit.

For the reportable condition, please respond by January 27, 2006.

Should you have any questions, please contact Margaret Wert or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Ryan K. Dempster, CPA, CFE
Audit Manager

RKD:bk

cc: Jeannette Holman, Assistant Director, Finance and Administration Division
Pamela Konstantopoulos, Fiscal Manager
Lindsay Ball, Director, Department of Administrative Services

Audit Findings and Recommendations Summary
Oregon Department of State Lands Statewide Audit
State Fiscal Year 2005

REPORTABLE CONDITION

Unclaimed Property System Does Not Reconcile to SFMA

Under Oregon's Unclaimed Property Act, the Department of State Lands (department) holds in trust abandoned funds such as bank accounts, lost securities, uncashed checks and estates of people who die without wills and without known heirs. These assets are reported in the Common School Fund and the interest earned on these assets is distributed to schools.

The department uses the Unclaimed Property System (UPS) to record the receipt and disbursement of unclaimed property. The UPS is a subsidiary system of the Statewide Financial Management Application (SFMA) and provides the underlying detailed information for the department's financial records.

In 2001, the Oregon Audits Division issued a report (report number 2001-56) that found the department had not performed reconciliations between balances in the UPS and SFMA for many years. As a result, the net amount of trust property assets in the department's financial accounting records was approximately \$8 million less than the amount in the UPS.

During the current year audit, we noted the department still has not reconciled the balances between SFMA and UPS. The net amount of trust property assets recorded in the department's financial accounting records was \$6.3 million more than the amount recorded in the UPS. Department personnel stated that the unclaimed property system data has gone through four conversions and, as a result, data reports did not always accurately report the transactions that occurred.

Best practices recommend monthly reconciliations between accounting records and underlying detail records. Agency personnel stated that they are currently in the process of reconciling the balances between the two systems. Not performing regular reconciliations could prevent the department from identifying and correcting errors or omissions and ultimately reduce the reliability of the department's financial information.

We recommend department management research and correct errors within UPS and SFMA so the underlying detailed data fully supports the financial accounting information reported by the department. Once this recommendation is implemented, **we recommend** the department proceed by performing regular reconciliations between UPS and SFMA to identify and correct errors in a timely manner.

OTHER CONDITIONS

User Access Not Based on Need

The department has not established adequate access controls over the Cash System - the system used to record cash receipts. During our review, we noted five employees had update access to the Cash System who did not require this access to perform assigned job duties. Granting employees unnecessary system access increases the risk that unauthorized modifications will not be detected. Previously, the department did not have a procedure to review user access in the Cash System. Prior to the end of our audit, management stated that they reviewed and updated user access to include only those individuals with a demonstrated need to the Cash System.

We recommend management establish adequate controls over the Cash System to ensure users are granted access based on a demonstrated need.

Investment Accounts Not Reconciled

The department has not performed investment account reconciliations as recorded in the Statewide Financial Management Application (SFMA) and the Oregon State Treasury (OST). We were able to confirm the department's investment account balances agreed with OST records. Best practices, however, recommend regular reconciliations to enable the department to identify potential errors or omissions in a timely manner.

We recommend department management perform regular reconciliations between SFMA and OST investment account balances.