



Auditing for a Better Oregon

January 5, 2006

Major General Raymond F. Rees
The Adjutant General
Oregon Military Department
1776 Militia Way SE
Salem, Oregon 97309-5047

Dear General Rees:

The statewide single audit that included selected financial accounts at Oregon Military Department for the year ended June 30, 2005, 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 the Oregon Military Department will continue on a periodic basis.

The following Oregon Military Department account was audited to determine its 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>
GL Account No. 0852	Buildings and Building Improvements	\$121,679,474.76

Based on our audit work, we did not identify any reportable conditions related to the assigned account. However, we identified some nonreportable internal control issues that we believe should be corrected. Those issues include:

Capital Assets Reconciliations

The Oregon Accounting Manual 15.60.10.PR.126 requires the quarterly reconciliation of capital outlay expenditures to additions in the property ledger as an essential control over capital assets. Timely preparation and review of reconciliations help ensure that agency management has time to identify and resolve discrepancies to ensure that capital assets are reported correctly in the financial records.

Management Letter No. 248-2006-01-01

During our audit, we found department staff had not prepared or reviewed capital asset reconciliations during fiscal year 2005. This was also a finding in the prior fiscal year audit.

We recommend department management ensure capital outlay reconciliations are prepared and reviewed quarterly to determine whether the assets have been recorded appropriately.

Availability of Fixed Assets System and Data

Governance, Control and Audit for Information and Related Technology control objectives (CoBIT DS 11.23 and 11.24) recommend a strategy for periodically backing up essential systems and data and procedures to ensure backups are taken in accordance with the strategy. Backups help ensure that critical systems and data can be restored and made available in the event of a significant disruption of service.

During our audit, department staff disclosed the Fixed Assets System (FAS) and data had not been backed up since the application had been brought on line in mid-2004. According to staff, this was due to a misunderstanding as to who was responsible for ensuring the backups were taken.

We recommend department management establish a schedule for backing up FAS and the data and implement procedures to ensure the backups are taken.

Capital Assets Records

The Oregon Accounting Manual (OAM) provides guidelines for establishing internal controls relating to capital assets to ensure that those assets are recorded properly. Furthermore, OAM 15.60.10.PR.112 requires assets with a cost of \$5,000 or more and a useful life of at least one year to be capitalized and reported in agencies' accounting records.

During our audit, we found that department staff may not have recorded all capital assets that should have been recorded. During the department's annual physical inventory process, begun in July 2005, staff identified several buildings, totaling approximately \$2 million in value, that potentially should be recorded in the department's records. Those inventory discrepancies had not been resolved at the time of our review in November 2005. Although the amount was not material in comparison to the total of the department's buildings account, records should reflect an accurate accounting for all capital assets owned by the state.

We recommend department management ensure resolution of the discrepancies noted during the fiscal year 2005 physical inventory process and make any necessary adjustments to its Buildings and Building Improvements account in the state's accounting system as well as to its subsidiary records. Management also should implement procedures to timely resolve differences, noted during future physical inventory processes, to ensure all capital assets are recorded properly.

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Because the above issues are not reportable, they do not require a Corrective Action Plan. However, during the next fiscal year audit, we will follow up on the department's progress in addressing these issues. Should you have any questions, please contact Dale Bond or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Neal E. Weatherspoon, CPA, CISA, CISSP
Audit Manager

NEW:bk

cc: Karl Jorgenson, Director, Financial Administration Division
Bryce Dohrman, Controller
Lindsay A. Ball, Director, Department of Administrative Services