



Auditing for a Better Oregon

January 29, 2007

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

Dear Ms. Solliday:

The statewide single audit that included selected financial accounts at Oregon Department of State Lands (department) for the year ended June 30, 2006, has been completed.

This statewide single audit work is not a comprehensive audit of the 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	\$917,360,061
0245	Investment Valuation Acct – Designated	118,918,355
1215	Accounts Payable	55,739,252
1551	Deposit Liability – w/o DF Support	224,508,549
0810	Income From Investments – Treasury	78,250,475
6700	Distribution to Other Governments	0

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

Management Letter No. 141-2007-01-01

The reportable condition, along with your response, will be included in our Statewide Single Audit Report for the year ended June 30, 2006. 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.

For the reportable condition, please respond by February 2, 2007.

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

Sincerely,
OREGON AUDITS DIVISION

V. Dale Bond, CPA, CISA, CFE
Audit Manager

VDB:bk
enclosure

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 2006

REPORTABLE CONDITION

Unclaimed Property System Not Reconciled 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 in 2001. Fiscal year 2005 auditors followed up on this issue and reported that a variance of approximately \$6.3 million still existed between the UPS and SFMA.

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 SFMA was approximately \$3.3 million more than the amount reported by the department in the UPS. Department personnel stated the UPS 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 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 so the underlying detailed data fully support 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.