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*Auditing for a Better Oregon*

January 5, 2007

Stephanie Hallock, Director  
Oregon Department of Environmental Quality  
811 SW 6th Avenue  
Portland, Oregon 97204

Dear Ms. Hallock:

The statewide single audit that included selected financial accounts at Oregon Department of Environmental Quality (department) for the year ended June 30, 2006, 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 – Environmental Management (GAAP Fund 1107):		
0065	Unreconciled Deposit	\$ 1,101,563
0070	Cash on Deposit with Treasurer	140,571,744
0931	Loans Receivable	296,749,300
2998	Reserved for Loans Receivable	296,749,300
0212	Other Business Licenses and Fees	17,393,804
0228	Other Nonbusiness Licenses and Fees	17,902,870
0300	Federal Revenue	41,939,406
3111	Regular Employees	32,284,596
3221	Social Security Taxes	2,253,244
4xxx	Various Services and Supplies	37,215,296

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Management Letter No. 340-2007-01-01

Based on our audit, we did not identify any reportable conditions related to the accounts audited. However, we did identify a condition of lesser significance that we wanted to communicate to agency management. This condition does not require a Corrective Action Plan. We will follow up on the department's progress in addressing this issue during the next fiscal year audit.

Vehicle Inspection Program Missing Documentation

During our testing of Vehicle Inspection Program (VIP) license revenue, we found the Medford Clean Air Station's Mobile Unit was unable to locate the department copies of the VIP Certificates of Compliance issued during the months of May 2005 through December 2005. State accounting guidelines state all accounting transactions must be supported by appropriate documentation. The documentation must be complete and accurate and allow a transaction to be traced from the source documentation, through its processing, to the financial reports. All documentation should be readily available for examination. Additionally, records should be retained six years in accordance with state requirements. Although these documents were unavailable, alternate procedures allowed us to verify the account balance was fairly stated in accordance with generally accepted accounting principles.

**We recommend** the department review current document retention policies and procedures to ensure supporting documentation is retained and readily available for examination.

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

Sincerely,  
OREGON AUDITS DIVISION

Ryan K. Dempster, CPA, CFE  
Audit Manager

RKD:brk

cc: René-Marc Mangin, Management Services Division Administrator  
Lindsay Ball, Director, Department of Administrative Services