

Office of the Secretary of State

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Audits Division

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February 4, 2008

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

Dear Ms. Solliday:

We have completed the statewide single audit that included selected financial accounts at the Department of State Lands (department) for the year ended June 30, 2007.

This audit work is not a comprehensive audit of the department. Instead, the audit work performed allowed us, in part, to achieve the following objectives: (1) express an opinion on whether the financial statements contained in the State of Oregon's Comprehensive Annual Financial Report are fairly presented, in all material respects, in conformity with generally accepted accounting principles; (2) determine whether the state's internal controls provide reasonable assurance of proper accounting, financial reporting, and legal compliance of transactions; and (3) determine whether the state has complied with applicable legal requirements that may have a direct and material effect on the state's financial statements.

In planning and performing our audit of the selected financial accounts at the department as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the department's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements of the State of Oregon, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control. Accordingly, we do not express an opinion on the effectiveness of the department's internal control.

We audited the following accounts and transactions at the department to determine their fair presentation in accordance with generally accepted accounting principles in relation to the state's 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	\$929,266,171
0245	Investment Valuation Acct – Designated	253,640,510
1215	Accounts Payable	83,443,128
1551	Deposit Liability – Without DF Support	258,974,004
0830	Net Increase (Decr) in FV of Investments	149,095,583
3111	Regular Employees	3,513,915
1854	Transfer Out to Dept of Education	71,320,100

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control. As discussed below, we identified a condition that management should consider for improving internal controls.

Year-End Adjustments Not Made

Management is responsible for ensuring that fiscal year-end closing procedures will result in reporting department financial information in conformity with generally accepted accounting principles.¹ Month 13 should be used to record those entries necessary to ensure proper presentation of the data. If errors or omissions are discovered after month 13 closes, agencies should notify Statewide Accounting and Reporting Services (SARS).²

Due to unexpected circumstances, the department's Fiscal Services Section was understaffed at the end of fiscal year 2007. As a result, some of the normal year-end adjustments were not recorded in the accounting records when month 13 closed. This resulted in understatements to the common school fund's accounts payable and investment valuation accounts, and an overstatement to the transfers out account.

While the department did not adjust these accounts in month 13, SARS made post closing adjustments to these accounts prior to our audit. No adjustments, based on our audit, were necessary to correct these accounts.

We recommend that department management ensure procedures are in place for completion of the fiscal year end adjustments that are required to report financial information in conformity with generally accepted accounting principles. We also recommend management work with their SARS analyst at the first indication there will be a problem completing year-end adjustments.

This matter does not require a written response. We will follow up on the department's progress in addressing this matter during the next fiscal year audit.

¹ OAM 15.95.00.PO.102

² OAM 15.97.00.PR.102

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In the prior fiscal year, a significant deficiency was reported to you in a letter dated January 29, 2007, related to the department's reconciliation of balances in the Unclaimed Property System and the Statewide Financial Management Application. This finding can also be found in the Statewide Single Audit Report for the fiscal year ended June 30, 2006; see audit report number 2007-06, finding number 06-6. During the current fiscal year, the department continues to make progress in correcting this finding. This finding will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2007, with a status of "partial corrective action taken."

This communication is intended solely for the information and use of management, the State Land Board, and others within the organization and is not intended to be and should not be used by anyone other than the specified parties.

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

Sincerely,
OREGON AUDITS DIVISION

Julianne Kennedy, CPA
Audit Manager

JK:brk

cc: Jeannette Holman, Assistant Director, Finance and Administration Division
Vena McCoy, Internal Auditor
Pamela Konstantopoulos, Fiscal Services Administrator
Kris Kautz, Acting Director, Department of Administrative Services
Ted Kulongoski, Governor of Oregon
Bill Bradbury, Secretary of State
Randall Edwards, Oregon State Treasurer