

Office of the Secretary of State

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Secretary of State

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Deputy Secretary of State



Audits Division

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November 4, 2008

The Honorable Randall Edwards, State Treasurer
Office of the State Treasurer
350 Winter Street NE, Suite 100
Salem, Oregon 97310-3896

Dear Mr. Edwards:

We have completed our financial statement audit of the Office of the State Treasurer's (OST) Oregon Short-Term Fund for the fiscal year ended June 30, 2008. The audit report was issued on September 8, 2008 (Secretary of State Audit Report No.2008-26). In addition to the finding included in the audit report, we noted the following control deficiency that warranted management's attention.

Internal Controls over Legal Compliance

Oregon Revised Statute (ORS) 294.810 imposes a limit on the amount of funds local governments may place in the Oregon Short-Term fund and requires OST to notify the local government and the Secretary of State when the government's balance exceeds the limit. OST had a control activity in place to track balances and identify instances when balances exceeded the threshold. However, we found that OST management was not sufficiently monitoring this control activity and, consequently, OST did not always notify the governments and the Secretary of State when the governments exceeded their threshold.

Effective for the fiscal year 2008, ORS 295.025 required governments to obtain Certificates of Participation (COP) for deposit balances of public funds in excess of the amount insured by the Federal Deposit Insurance Corporation. OST had a control activity in place to track these deposit balances and identify instances when they exceeded the COP coverage. However, we found that OST management was not sufficiently monitoring this control activity and, consequently, we identified instances when the deposit balances exceeded the COP coverage and management was not aware of this noncompliance.

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We recommend that OST management improve their monitoring of the control activities they have designed to ensure compliance with these legal requirements.

We will follow up on OST's progress in addressing this issue during our audit of fiscal year 2009 financial statements.

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

Sincerely,
OREGON AUDITS DIVISION

Julianne Kennedy, CPA
Audit Manager

JK:brk

cc: Linda Haglund, Deputy Director, Office of the State Treasurer
Sally Furze, Controller, Office of the State Treasurer
Curtis Hartinger, Risk and Compliance Officer, Office of the State Treasurer
Andrea Belz, Chief Audit Executive, Office of the State Treasurer
Katherine Durant, Chair, Oregon Investment Council
Douglas Goe, Chair, Oregon Short-Term Fund Board
Scott Harra, Director, Department of Administrative Services