Office of the Secretary of State

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February 14, 2008

Timothy McLain, Superintendent
Oregon State Police
255 Capitol St. NE, 4th Floor
Salem, Oregon 97301

Dear Mr. McLain:

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

This audit work was 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 were fairly presented, in all material respects, in conformity with generally accepted accounting principles; (2) determine whether the state's internal controls provided 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 statewide financial statements.

SFMA Account	Description	Audit Amount
General Fund (GAAP Fund 0001)		
3111	Regular Employees	$39,548,789
3210	Public Employees Retirement Contribution	6,329,604
3212	Pension Bond Assessment	2,731,109
3221	Social Security Taxes	3,524,538
3263	Medical, Dental, Life Insurance	8,678,535

3264	Medical, Dental, Life Insurance-Agency Subsidy	108,300
4XXX	Various services and supplies accounts	20,745,172

Community Protection Fund (GAAP Fund 1103)

3111	Regular Employees	$17,102,711
3210	Public Employees Retirement Contribution	2,807,431
3212	Pension Bond Assessment	1,199,498
3221	Social Security Taxes	1,608,179
3263	Medical, Dental, Life Insurance	3,969,199
3264	Medical, Dental, Life Insurance-Agency Subsidy	39,724
6300	Distributions to Counties	17,236,343
6400	Distributions to Cities	29,665,096

Our consideration of internal control was for the limited purpose described in the preceding paragraphs and would not necessarily identify all deficiencies in internal control. As discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness:

Financial Reporting Accuracy

The state's governmental funds are reported using the modified accrual basis of accounting. Therefore, expenditures should be recognized when the related liability is incurred regardless of the timing of the related cash flows. The quality of the state's Comprehensive Annual Financial Report depends on the accuracy and completeness of year end closing activities. For agencies, this means financial statement accruals should be recorded in month 13, the last period of each fiscal year. We found the department did not record all accruals it should have during fiscal year 2006 for the Distributions to Counties and Distributions to Cities accounts. We identified approximately $5.2 million and $5.8 million, respectively, of expenditures relating to fiscal year 2006 that were recorded as expenditures of fiscal year 2007, instead of being accrued to the prior fiscal year. As a result, these two accounts were overstated by material amounts in fiscal year 2007. Prior to the end of the audit, the department accepted our proposed adjustments to these accounts in the amounts noted above.

We recommend department management ensure that it properly accrues amounts at fiscal year end so that accounts are accurately stated for financial reporting purposes.

The material weakness, along with your response, will be included in our Statewide Single Audit Report For the Fiscal Year Ended June 30, 2007. Including your response 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 material weakness 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.

Please respond by February 22, 2008.

This communication is intended solely for the information and use of management and others within the department 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 Michelle Rock or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

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

VDB:brk
cc: Monica Brown, Budget Director
Roberta Watson, Business Services Manager
Stacey Chase, Accounting Manager
Linda Kosmoski, Payroll Manager
Kris Kautz, Interim Director, Department of Administrative Services