Office of the Secretary of State

Bill Bradbury
Secretary of State

Jean Straight
Deputy Secretary of State

Audits Division

Charles A. Hibner, CPA
Director

255 Capitol Street NE, Suite 500
Salem, OR 97310

(503) 986-2255
fax (503) 378-6767

February 6, 2008

Marvin Brown, State Forester
Oregon Department of Forestry
2600 State Street
Salem, Oregon 97301

Dear Mr. Brown:

We have completed the statewide single audit that included selected financial accounts at Oregon Department of Forestry (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
Special Revenue Fund – Environmental Management (GAAP Fund 1107):		
0065	Unreconciled Deposit	$ 5,867,557
0070	Cash on Deposit with Treasurer	45,878,590
0703	State Forest Lands	90,632,056
1405	Transfer to Counties	57,271,278
3111	Regular Employees	21,383,243
3210	Public Employees Retirement Contribution	3,780,733
3221	Social Security Taxes	2,383,149
4xxx	Various Services and Supplies	42,785,553

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 certain deficiencies in internal control that we consider to be significant deficiencies.

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. We consider the following deficiencies to be significant deficiencies in internal control:

Services and Supplies Expenditures Not Recorded in Compliance with Generally Accepted Accounting Principles

Generally accepted accounting principles (GAAP) require expenditures to be recognized when goods or services are received. State accounting policy specifies that department management is responsible for ensuring financial information is recorded in conformity with GAAP. For fiscal year 2007, the department recorded services and supplies expenditures, totaling approximately $1.9 million, for which no goods or services were received. These monies were transferred to another internal department fund to allow unused monies from the 05-07 biennial authorization to be expended against the 07-09 biennial authorization. The result of this practice is that monies are recorded as expended twice: once for the current year, and again in the period the monies are actually expended.

We recommend the department ensure all expenditures are accurately recorded when goods or services are received in accordance with GAAP.

Incomplete Risk Assessment Process

An organization's risk assessment for financial reporting purposes is its identification, analysis and management of risks relevant to the preparation of financial statements that are fairly presented in conformity with generally accepted accounting principles. According to state policy, once risks are identified, management should consider their significance, the likelihood of occurrence and how to manage them. The department has developed a risk assessment that identifies risks throughout the department. The risk assessment has specific risks related to different service areas and does include risks that would affect financial reporting. However, department management has not developed a plan to manage the risks identified.

We recommend the department develop and implement a plan to manage risks identified for financial reporting.

In addition to the significant deficiencies identified above, we identified an other matter that warrants management's attention.

Reconciliations Between SFMA and TRAS

The department did not perform regular, complete reconciliations of the Timber Revenue Accounting System (TRAS) to the Statewide Financial Management Application (SFMA) during fiscal year 2007. Timber sales revenues are recorded independently in TRAS and in SFMA, utilizing the same source information. Input errors can result in different entries being made in TRAS and SFMA. Exception reports, showing discrepancies between the two systems, are generated to assist with the reconciliation process.

During fiscal year 2007, the department realized not all SFMA information was being queried to result in complete exception reports, thereby preventing complete reconciliations from being performed. The department worked on refining the query to ensure all SFMA information was retrieved; however, this did not occur until after fiscal year end.

Reconciliations are necessary to provide additional assurance that transactions are completely and accurately recorded and that reported balances are correct. According to state financial guidelines, management should ensure timely reconciliation of subsidiary accounts to control accounts and provide adequate review and approval of reconciliation documentation.

We recommend the department implement procedures that ensure TRAS and SFMA reconciliations are completed on a regular basis. Reconciliations should be thoroughly documented and independently reviewed.

The significant deficiencies, along with your responses, will be included in our Statewide Single Audit Report for the Fiscal Year Ended June 30, 2007. Including your responses satisfies the federal requirement that management prepare a Corrective Action Plan covering all reported audit findings. Satisfying the federal requirement in this manner, however, can only be accomplished if the response to each significant deficiency includes the information specified by the federal requirement, and only if the responses are received in time to be included in the audit report. The following information is required for each response:

1. Your agreement or disagreement with the finding. If you do not agree with an 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 13, 2008. The other matter does not require a written response. We will follow up on the department's progress in addressing this issue during the next fiscal year audit.

This communication is intended solely for the information and use of management, the Board of Forestry, 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 Diane Farris or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Julianne Kennedy, CPA
Audit Manager

JK:brk
cc: Clark Seely, Associate State Forester, Administrative Services Division
David Clouse, Quality Assurance Program Director
Mark Hubbard, Business Services Director
Stephen Hobbs, Chair, Board of Forestry
Kris Kautz, Interim Director, Department of Administrative Services