Office of the Secretary of State

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February 13, 2008

Tim Wood, Director
Oregon Parks and Recreation Department
725 Summer St. NE, Suite C
Salem, Oregon 97301

Dear Mr. Wood:

We have completed the statewide single audit that included selected financial accounts at the Oregon Parks and Recreation Department (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 Fund (GAAP Fund 1107)		
0065	Unreconciled Deposit	$ 1,578,984
0070	Cash on Deposit with Treasurer	36,202,742
1378	Transfers In From Department of Transportation	25,069,701
3111	Regular Employees	21,038,875

3210	Public Employees Retirement Contribution	2,671,890
3221	Social Security Taxes	1,801,000
4xxx	Various Services and Supplies	27,610,470

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:

Incomplete Services and Supplies Expenditure Accrual Process

Generally accepted accounting principles require expenditures be recognized when goods or services are received. This requires the department to accrue expenditures incurred but not yet paid at the end of the fiscal year. The department's services and supplies expenditure accrual process, however, did not ensure accurate reporting of expenditures incurred during the reporting period. As a result, services and supplies were overstated by approximately $749,000 as of June 30, 2007.

We recommend department management evaluate its expenditure accrual process and develop a more effective methodology to ensure expenditures are appropriately accrued to the proper period.

Inadequate Segregation of Duties Over Contracting Retainage Account

The department established an interest bearing retainage account for a large construction contract, at a banking institution other than the Oregon State Treasury (Treasury), after receiving approval from Treasury. Only one authorized signer was established for the account, which did not ensure adequate segregation of duties. The Oregon Accounting Manual (OAM) states that proper segregation of duties is necessary for effective control procedures. Management should ensure adequate separation of authorization for transactions, recording of transactions, custody of assets and periodic reconciliation of existing assets to recorded amounts. Without adequate segregation of duties, there is an increased risk that errors and/or missapropriation of assets could occur and not be detected, or detected timely.

We recommend department management ensure appropriate segregation of duties for accounts established at banking institutions outside of Treasury. Management should require a minimum of two authorized signers be present when a withdrawal is made and that payments from the account are authorized by both signers.

Inadequate Support for Service and Supply Expenditures

We found that the department paid a vendor $44,000 for invoiced goods and services provided under a media contract when supporting documentation supported only $42,169 of the payment. State policy notes that each employee authorized to make an expenditure decision involving state funds must ensure that the transaction is for authorized purposes and is a responsible and appropriate use of these funds. The department cannot ensure that payments made to vendors are accurate and in compliance with contract provisions if adequate supporting documents are not obtained and reviewed by agency personnel before payments are made.

We recommend department management ensure adequate supporting documentation is received and reviewed for accuracy and appropriateness before the department releases payment to a vendor.

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 20, 2008.

This communication is intended solely for the information and use of management, others within the organization, and the Oregon Parks and Recreation Commission 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 David Terry or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Julianne Kennedy, CPA
Audit Manager

JK:brk

cc: Rebecca Jasso, Accounting Manager
Lisa VanLannen, Assistant Director of Administration
Jim Parr, Chair, Oregon Parks and Recreation Commission
Kris Kautz, Interim Director, Department of Administrative Services