

**Office of the Secretary of State**

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February 3, 2009

Scott Harra, Director  
Department of Administrative Services  
155 Cottage St. NE, U20  
Salem, Oregon 97301-3972

Dear Mr. Harra:

We have completed audit work of selected financial accounts at the Department of Administrative Services (department) for the year ended June 30, 2008.

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.

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.

<u>SFMA Account</u>	<u>Description</u>	<u>Audit Amount</u> <u>Debit (Credit)</u>
<u>GAAP Fund 0001 – General Fund</u>		
1853	Transfer Out to OUS	\$ 427,077,376
<u>GAAP Fund 1102 – Business Development Fund</u>		
1322	Transfer In from Lottery	(704,684,700)
<u>GAAP Fund 1103 – Community Protection Fund</u>		
0065	Unreconciled Deposit	294
0070	Cash on Deposit with Treasurer	85,328
<u>GAAP Fund 1105 – Educational Support Fund</u>		
0065	Unreconciled Deposit	951,950
0070	Cash on Deposit with Treasurer	355,421,308
1301	Transfer In from Other Fund	(126,837,151)

<u>GAAP Fund 1107 – Environmental Management Fund</u>		
1301	Transfer In from Other Fund	\$ (105,697,626)
<u>GAAP Fund 1108 – Health and Social Services Fund</u>		
0065	Unreconciled Deposit	354,747
0070	Cash on Deposit with Treasurer	229,775,555
1105	Other Revenue	(79,172,873)
1401	Transfer Out to Other Funds	61,024,262
<u>GAAP Fund 1111 – Public Transportation Fund</u>		
1405	Transfer to Counties	119,405,797
<u>GAAP Fund 4013 – Other Enterprise Funds</u>		
0065	Unreconciled Deposit	308,182
0070	Cash on Deposit with Treasurer	2,144,203
<u>GAAP Fund 5001 – Central Services Fund</u>		
0852	Buildings and Building Improvements	322,310,019
0816	Motor Vehicles	78,113,398
<u>GAAP Fund 8500 – Government Wide Reporting Fund</u>		
0967	Net Pension Asset	1,837,700,000
1276	Bonds Payable – Current	(73,752,200)
1714	Bonds Payable – Noncurrent	(2,519,745,215)
<u>GAAP Fund 0001 – General Fund (Agency 999)</u>		
0065	Unreconciled Deposit	(664,543,842)
0070	Cash on Deposit with Treasurer	684,552,955
<u>GAAP Fund 1114 – Oregon Rainy Day Fund (Agency 999)</u>		
0070	Cash on Deposit with Treasurer	329,808,282
0820	Excess Fund Interest – Treasury	(11,385,652)

In planning and performing our audit of the selected financial accounts at the Department of Administrative Services as of and for the year ended June 30, 2008, 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.

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. 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 deficiency to be a significant deficiency in internal control:

### **Self Insurance Financial Reporting**

Starting in fiscal year 2007 the department operated a medical self insurance plan for current and former employees. The department did not make the required financial statement note disclosures for this plan for fiscal years 2007 and 2008. In addition, in each of the two fiscal years, the department incorrectly reported the plan's current activity in an agency fund. Further, 2007 fiscal year transactions were incorrectly reported as fiscal year 2008 transactions.

This condition resulted from misunderstandings between the department's various divisions responsible for performing, recording, and reporting financial activity associated with this plan. There were misunderstandings about the underlying nature of the transactions, and the correct method of reporting and disclosing plan activity in the financial statements.

**We recommend** the department improve its communications between divisions related to year-end financial reporting. The department should ensure that activities are identified and discussed, prior to fiscal year-end, to ensure proper classification and disclosure of plan activities in the financial statements.

This significant deficiency, along with your response, will be included in our Statewide Single Audit Report For the Fiscal Year Ended June 30, 2008. Including your response 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 the significant deficiency 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 of the contact person responsible for corrective action.

Please respond by February 17, 2009.

In addition to the significant deficiency, we identified the following other matter that management should consider for improving financial reporting.

**Year-end Cut-off of Motor Vehicle Transactions**

Motor vehicle dispositions made near fiscal year-end were not always recorded in the year of the disposal in accordance with accounting principals generally accepted in the United States. Therefore, the June 30, 2008, balance reported in the financial statements includes vehicles that were no longer owned as of that date.

**We recommend** the department review vehicle sales recorded in June and July to ensure they are being recorded as deletions in the correct fiscal period for financial reporting.

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

This communication is intended solely for the information and use of management 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 Mark Winter or me at (503) 986-2255.

Sincerely,  
OREGON AUDITS DIVISION

Julianne Kennedy, CPA  
Audit Manager

JK:brk  
cc: Bret West, Administrator, Operations Division  
Pamela Valencia, Chief Audit Executive