

Office of the Secretary of State

Kate Brown
Secretary of State

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Deputy Secretary of State



Audits Division

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January 22, 2009

Louise Solliday, Director
Department of State Lands
775 Summer Street NE, Suite 100
Salem, OR 97301-1279

Dear Ms. Solliday:

We have completed audit work of selected financial accounts at the Department of State Lands (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 are 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>
Special Revenue Fund – Common School Fund (GAAP fund 1113)		
0830	Net Increase (Decr) in FV of Investments	\$120,353,179
0240	Investments – Designated	918,504,799
0245	Investment Valuation Acct – Designated	95,568,784
0350	Securities Lending Cash Collateral	97,997,717
0503	Accounts Receivable – Other Unbilled	9,498,862
1215	Accounts Payable	(8,003,213)
1551	Deposit Liability – Without DF Support	(300,020,577)
1600	Obligations Under Security Lending	(97,997,717)

In planning and performing our audit of the selected financial accounts at the department 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.

As a result of our fiscal year 2006 audit, we reported a significant deficiency related to the department's Unclaimed Property System (UPS). We followed up on the corrective status of that finding during our fiscal year 2007 and 2008 audits. The department partially corrected the finding by completing reconciliations of receipts and disbursements for fiscal years 2007 and 2008 and making the corresponding adjustments. This finding will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2008, with a status of partial corrective action.

This communication is intended solely for the information and use of management, the State Land Board, 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 Jean Hodges or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Julianne Kennedy, CPA
Audit Manager

JK:brk

cc: Cyndi Wickham, Assistant Director, Finance and Administration Division
Vena McCoy, Internal Auditor
Pamela Konstantopoulos, Fiscal Services Manager
Scott Harra, Director, Department of Administrative Services
Ted Kulongoski, Governor of Oregon, Oregon State Land Board