

Office of the Secretary of State

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Secretary of State

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Audits Division

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January 30, 2009

Major General Raymond F. Rees, Adjutant General
Oregon Military Department
PO Box 14350
Salem, Oregon 97309-5047

Dear General Rees:

We have completed audit work of selected financial accounts at the Oregon Military Department (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.

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.

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
<u>General Fund (GAAP Fund 0001)</u>		
3111	Regular Employees	\$3,708,212
3210	Public Employees Retirement Contribution	469,854
3212	Pension Bond Assessment	227,260
3221	Social Security Taxes	289,273
3263	Medical, Dental, Life Insurance	882,197

Community Protection Fund (GAAP Fund 1103)

3111	Regular Employees	\$15,286,031
3210	Public Employees Retirement Contribution	2,072,775
3212	Pension Bond Assessment	946,017
3221	Social Security Taxes	1,277,863
3263	Medical, Dental, Life Insurance	4,333,922

Government-Wide Reporting Fund (GAAP Fund 8500)

0852	Buildings and Building Improvements	\$142,005,634
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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 an other matter that management should consider for improving internal controls.

Payroll

The department processes payroll expenditures through the Oregon State Payroll Application (OSPA) hosted by the Department of Administrative Services. Specific internal control requirements related to payroll expenditures are outlined in the Oregon Accounting Manual. These internal controls are designed to protect payroll data integrity and to lessen the risk that errors or fraudulent transactions will be introduced into the system and go undetected.

The department had not fully complied with Oregon Accounting Manual requirements for providing sufficient internal control over payroll transactions. Specifically, eight of 24 Gross Pay Adjustment reports we examined were reviewed after the release of pay, and reconciliations of the department's OSPA reports to the state accounting system were not performed.

We recommend department management fully comply with payroll policies as outlined in the Oregon Accounting Manual. Specifically, department management should ensure that Gross Pay Adjustment reports are reviewed timely and reconciliations of payroll expenditures reported in OSPA and the state accounting system are performed.

This matter does not require a written response. We will follow up on the department's progress in addressing this matter 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.

Major General Raymond F. Rees, Adjutant General
Oregon Military Department
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Should you have any questions, please contact Michelle Searfus or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

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

VDB:brk

cc: BG Mike Caldwell, Deputy Director
Karl Jorgenson, Director, Financial Administration Division
Bryce Dohrman, Controller
Scott Harra, Director, Department of Administrative Services