

Office of the Secretary of State

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January 30, 2009

Max Williams, Director
Department of Corrections
2575 Center Street NE
Salem, Oregon 97301-4667

Dear Mr. Williams:

We have completed audit work of selected financial accounts at the Department of Corrections (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	\$188,013,852
3210	Public Employees Retirement Contribution	31,433,685
3212	Pension Bond Assessment	12,421,666
3221	Social Security Taxes	16,509,255

General Fund (GAAP Fund 0001) (continued)

3263	Medical, Dental, Life Insurance	51,229,460
4xxx	Various Services and Supplies	136,503,825
6300	Distribution to Counties	104,473,108

Community Protection Fund (GAAP Fund 1103)

3111	Regular Employees	\$10,878,340
3210	Public Employees Retirement Contribution	532,722
3212	Pension Bond Assessment	219,103
3221	Social Security Taxes	291,915
3263	Medical, Dental, Life Insurance	740,226
4xxx	Various Services and Supplies	9,174,179

Government-Wide Reporting Fund (GAAP Fund 8500)

0852	Building and Building Improvements	\$714,178,649
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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 other matters that management should consider for improving internal controls.

Gross Pay Adjustment Report Review

The Oregon Accounting Manual requires an agency manager (not attached to the agency payroll unit) to review and approve the Gross Pay Adjustment report prior to the release of pay to employees. This preventative control provides agency management an opportunity to identify and resolve discrepancies in payroll prior to distribution.

During the audit, we found the department could improve its review of the Gross Pay Adjustment reports. Specifically, we selected and reviewed 11 reports and found that two reports were not reviewed in a timely manner (ranging from one to 11 days after the release of pay); four reports were reviewed by accounting staff instead of an agency manager; and three reports did not indicate the date of review, which prevented us from determining whether the review was complete and timely. As a result of these conditions, the department was not fully in compliance with the state accounting policy.

We recommend department management fully comply with state accounting policy by ensuring that Gross Pay Adjustment reports are reviewed prior to the release of pay and reviewed by an appropriate agency manager. In addition, evidence of review should be noted on all reports.

Housing Subsidy Payments

The Oregon Accounting Manual requires all recorded transactions to be supported by copies of source documents and other supporting information sufficient to provide clear evidence of the authenticity of the transaction, the purpose or reason, clear evidence of the vendor/customer involved in the transaction, and proper authorization.

During our review of the department's services and supplies expenditures, we identified a transaction for a housing subsidy used to help inmates transition upon release. Documentation supporting the transaction was limited to an e-mail request for funds from the inmate's counselor, and an e-mail approval from the Transitional Services administrator. After additional inquiries, we noted that the department does not use contracts, price agreements, or price lists with the transitional houses to confirm the costs are reasonable, nor does the department receive invoices for the housing costs. Furthermore, the transactions do not undergo an independent review. As a result, the process for initiating and authorizing the housing subsidies presents a higher risk for waste or abuse due to the lack of corroborating evidence of the housing costs and independent review.

We recommend department management review its process for housing subsidy payments to ensure adequate supporting documentation is obtained and reviewed for accuracy and reasonableness before the department releases payment to a vendor.

Contract Expenditure Accruals

The state's governmental funds are reported using the modified accrual basis of accounting. Therefore, expenditures should be recognized when the liability is incurred regardless of the timing of the related cash flows. This requires the department to accrue expenditures that are incurred but not yet paid at the end of the fiscal year.

The department's process for accruing services and supplies expenditures did not ensure complete reporting of liabilities incurred during the reporting period. For example, we found the department did not record accruals for contract related expenditures for services received prior to the end of the reporting period. Instead, the department included these amounts in its disclosure of commitments for the notes to the state's financial statements. As a result, services and supplies expenditures were understated by an estimated \$530,082 as of June 30, 2008, and the commitments in the note disclosures were overstated by the same amount.

We recommend department management modify its year end closing process to ensure it accrues contract related expenditures.

These matters do not require a written response. We will follow up on the department's progress in addressing these matters 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.

Max Williams, Director
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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: Tami Dohrman, Fiscal Services Division Administrator
Jamie Breyman, Internal Audit Administrator
Scott Harra, Director, Department of Administrative Services