

Office of the Secretary of State

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March 9, 2009

Roy Elicker, Director
Oregon Department of Fish and Wildlife
3406 Cherry Avenue NE
Salem, Oregon 97303

Dear Mr. Elicker:

We have completed audit work of selected financial accounts at the Oregon Department of Fish and Wildlife (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.

SFMA Account	Description	Audit Amount Debit (Credit)
<u>GAAP Fund 1107 - Special Revenue Fund: Environmental Management Fund</u>		
0065	Unreconciled Deposit	\$ 215,349
0070	Cash on Deposit with Treasurer	35,059,820
0224	Hunter and Angler Licenses	(38,366,957)
0300	Federal Revenue	(51,536,256)
3111	Regular Employees	39,447,831
3221	Social Security Taxes	3,111,189
3263	Medical, Dental, Life Insurance	10,757,512
4xxx	Various Services and Supplies	32,193,654

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. We consider the following deficiencies to be significant deficiencies in internal control.

Lack of Reconciliation of Point of Sale System

The department receives fax/mail orders for licenses and tags at its Salem headquarters. The department accounts for these sales by generating the license or tag with its Point of Sale Licensing System (POS) and records cash received using a cash register system. The department does not reconcile its Point of Sale system and its cash register system for these sales. Regular reconciliations between these two systems is an important internal control that provides assurance that the licenses generated in the POS system agree to the cash register receipts for fax/mail order license sales. Although the department has taken steps to address this issue by reviewing a sample of POS transactions against cash register transactions, without a complete reconciliation between the two systems, there is an increased risk that misappropriation of assets could occur and not be detected in a timely manner.

We recommend department management strengthen its controls over license sales by regularly reconciling the POS system and the cash register system to ensure accountability for all licenses, tags and cash receipts.

Procedures for Accruing Federal Revenue Need Improvement

The department created a methodology for accruing federal revenue and classifying receivables as current and non-current to help address a recurring prior year finding. Generally Accepted Accounting Principles require current receivables and revenue only be reported if payment is expected to be received within 90 days of fiscal year end and that receivables expected to be collected after the 90-day period be reported as non-current. The department's methodology requires the evaluation of transactions that occurred during the fiscal year for the purpose of

estimating the balance and collection of receivables at fiscal year end. During our audit, we tested the department's methodology and found that it did not capture all applicable transactions that occurred during the fiscal year. In addition, the methodology did not correctly classify all receivables as current and non-current. As a result, federal revenue and the related accounts receivable were misstated at June 30, 2008.

We recommend department management review and modify its methodology for accruing federal revenue to capture all applicable transactions and to correctly classify receivables as current and non-current at fiscal year end.

Duplicate Federal Revenue Transactions

The department prepares monthly reconciliations to ensure the accurate recording of federal expenditures and associated federal revenues. Management review is an important internal control that helps to ensure amounts are accurate and properly recorded. Department management did not review the monthly federal revenue reconciliations during fiscal year 2008. We found the department recorded a total of 30 duplicate transactions during the year, resulting in an overstatement of \$303,738 in federal revenue and receivable account balances as of and for the year ended June 30, 2008. As a result of our audit, management took action to correct these errors in the financial system and, as of March 6, 2009, only \$2,820 remained uncorrected related to these errors.

We recommend department management perform timely and adequate review of monthly reconciliations of federal expenditures and associated federal revenues to ensure all transactions are accurately recorded. In addition, we recommend the department resolve all duplicate transactions and repay any cash received inappropriately due to the errors.

OTHER MATTERS

In addition to the significant deficiencies identified above, we identified an other matter that warrants management's attention.

Segregation of Duties Could Be Improved

Department management is responsible for establishing and maintaining internal control. Segregation of duties help ensure management directives are carried out and mitigate risks relevant to financial processing and reporting. Without adequate segregation of duties there is an increased risk that misappropriation of assets could occur and not be detected in a timely manner. We identified several opportunities for improving segregation of duties by applying guidance outlined in the Oregon Accounting Manual. Specifically, the department could improve segregation of duties by:

- ensuring Gross Pay Adjustment reports are reviewed by a manager who does not directly supervise payroll personnel;

- ensuring agency personnel with access to the Oregon State Payroll Application are not authorized to receive or distribute payroll checks or direct deposit pay stubs;
- ensuring agency personnel with responsibility for approving federal billing transactions and reviewing federal revenue reconciliations, do not also have access to modify federal billings and revenue data in the Federal Billings Database; and
- ensuring the ordering, receiving, recordkeeping and custody duties for prepaid license inventories are not all performed by one person.

When brought to the attention of department management, management took immediate action to improve segregation of duties.

We recommend department management review the Oregon Accounting Manual and implement adequate segregation of duties over all financial processes.

PRIOR YEAR FINDINGS

In the prior fiscal year, significant deficiencies were reported to you in a letter dated February 20, 2008, related to the department's lack of reconciliation of hunter and angler licenses and inadequate procedures for estimating federal revenues and accounts receivables at fiscal year end. These findings can also be found in the Statewide Single Audit Report For the Fiscal Year Ended June 30, 2007, see Secretary of State Audit Report number 2008-03, finding numbers 07-17 and 07-18. The department made progress in correcting these findings during the current fiscal year. These findings will be reported in the Statewide Single Audit Report For the Fiscal Year Ended June 30, 2008, with a status of partial corrective action taken.

The significant deficiencies identified for fiscal year 2008, along with your responses, will be included in our Statewide Single Audit Report For the Fiscal Year Ended June 30, 2008. 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.

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Please respond by March 16, 2009. 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, others within the department, and the Oregon Fish and Wildlife 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: Tom Ruddiman, Deputy Director, Administration
Shirlene Gonzalez, Administrative Services Division Administrator
Sandra Calhoon, Fiscal Services Manager
Marla Rae, Chair, Oregon Fish and Wildlife Commission
Scott Harra, Director, Department of Administrative Services