

Office of the Secretary of State

Kate Brown
Secretary of State

Barry Pack
Deputy Secretary of State



Audits Division

Gary Blackmer
Director

255 Capitol St. NE, Suite 500
Salem, OR 97310

(503) 986-2255
fax (503) 378-6767

January 28, 2011

Louise Solliday, Director
Department of State Lands
775 Summer Street NE, Suite 100
Salem, Oregon 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, 2010.

This audit work was not a comprehensive audit of the department. We performed this audit work as part of our annual statewide financial audit. The objective of the statewide audit was to 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.

In planning and performing our audit of the selected financial accounts at the department as of and for the year ended June 30, 2010, 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 at the department and determined 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>GAAP Fund 1113 – Special Revenue Fund</u>		
0240	Investments	\$910,335,613
0245	Investments Valuation Account	71,517,503
0929	Investments – noncurrent	44,915,925
0830	Net Increase/Decrease Fair Value of Investments	72,117,125
0350	Securities Lending Cash Collateral	49,759,494

1600	Obligations Under Securities Lending	49,759,494
1551	Deposit Liability without DF Support	185,014,636
0810	Income From Investments	47,279,582
1854	Transfer Out to Education	50,450,033

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. As discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

Material Weakness

Incorrect accounting for Unclaimed Property held in the Common School Fund

The Department of State Lands (department) is responsible for recording and tracking all unclaimed property in Oregon. Banks and other institutions report unclaimed property to the department where it is recorded and then reported online for claimants to review. Claimants submit their claims to the department who then verifies the validity of the claim and sends the property to the claimant.

In the past, the department had been accounting for all unclaimed property not yet claimed as a liability. Further research found the current accounting treatment was not reflective of governmental accounting standards. According to standards, the liability should represent the best estimate of the amount ultimately expected to be reclaimed and paid. For year-end reporting purposes, the department developed an estimate of the amount of the unclaimed property they expect to be reclaimed. As a result, the department adjusted the fiscal year end account balance of \$371 million down to \$185 million.

We recommend the department continue to estimate the amount of unclaimed property expected to be claimed and revisit and update the methodology as needed.

The material weakness, along with your response, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2010. 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 material weakness 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 each 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(s) of the contact person(s) responsible for corrective action.

Please respond by February 8th, 2011.

This communication is intended solely for the information and use of management, others within the organization, and State Land Board and is not intended to be and should not be used by anyone other than the specified parties.

We appreciate your staff's assistance and cooperation during this audit. Should you have any questions, please contact Mary Doel or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Kelly L. Olson, CPA
Audit Manager

KLO:MED:nmj

cc: Cyndi Wickam, Assistant Director
Vena McCoy, Internal Auditor
Oregon State Land Board members
Kris Kautz, Acting Director, Department of Administrative Services