

Office of the Secretary of State

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Audits Division

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January 11, 2011

Nancy Hirsch, Acting State Forester
Oregon Department of Forestry
2600 State Street
Salem, Oregon 97310

Dear Ms. Hirsch:

We have completed audit work of selected financial accounts at the Oregon Department of Forestry (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 1107 – Environmental Management Fund</u>		
0065	Unreconciled Deposit	\$ 2,019,040
0070	Cash on Deposit with Treasurer	22,682,609
0703	State Forest Lands- Sales	73,269,492
1405	Transfers to Counties	42,927,443
3111	Regular Employees	22,611,291

3210	Public Employees Retirement Contribution	2,832,752
3212	Pension Bond Assessment	1,578,820
3221	Social Security Taxes	2,293,269
3263	Medical, Dental, Life Insurance	8,055,909
4xxx	Services and Supplies	34,290,281
6xxx	Special Payments	4,512,816

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. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Prior Year Findings

In the prior fiscal year, we reported a significant deficiency related to the department's financial reporting risk assessment process in a letter dated February 24, 2010. This finding can also be found in the Statewide Single Audit Report for the fiscal year ended June 30, 2009; see Secretary of State audit report number 2010-19, finding number 09-09. During fiscal year 2010, the department took steps to identify and analyze financial reporting risks through its Risk Management and Analysis Process. The department continues to work through this process and indicated that it will document key decisions and assessments and make applicable changes to policies and procedures, as necessary. This finding will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2010, with a status of partial corrective action.

We also reported a significant deficiency related to the department's access controls for its Purchase Order (PO) System in a letter dated February 24, 2010. This finding can also be found in the Statewide Single Audit Report for the fiscal year ended June 30, 2009; see Secretary of State audit report number 2010-19, finding number 09-10. During fiscal year 2010, the department changed its process for approval of and assigning access to the PO system and began reviewing the PO system to determine the changes needed to ensure access is terminated timely upon an employee's separation from the department. This finding will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2010, with a status of partial corrective action.

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

We would like to express our appreciation to Mark Hubbard, Ed DeBlander, Jill Neely and their staff for their assistance during this audit. Should you have any questions, please contact Alan Bell or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Julianne Kennedy, CPA
Audit Manager

JK:AJB:nmj

cc: Satish Upadhyay, Administrative Services Division Chief
Mark Hubbard, Business Services Program Director
John Blackwell, Board of Forestry, Chair
Kris Kautz, Acting Director, Department of Administrative Services