

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

February 7, 2012

Patrick Allen, Acting Director
Department of Consumer and Business Services
PO Box 14480
Salem, OR 97309-0405

Dear Mr. Allen:

We have completed audit work of selected financial accounts at the Department of Consumer and Business Services (department) for the year ended June 30, 2011.

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, 2011, 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.

SFMA Account	Description	Audit Amount
<u>GAAP Fund 6405 – Custodial Agency Funds</u>		
0300	Securities Held in Trust	\$1,530,653,835
1575	Trust Funds Payable	1,595,080,341
<u>GAAP Fund 8500 – Government-Wide Reporting Fund</u>		
1617	Claims and Judgments Payable - Current	\$ 94,059,028
1717	Claims and Judgments Payable	769,274,438

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.

Other Matter

We did, however, identify the following other matter that is an opportunity to strengthen internal controls but is not considered to be a significant deficiency or a material weakness. This other matter does not require a written response from management.

When reviewing the department's documentation supporting the Division of Finance and Corporate Securities investments held in trust, we identified that the division had made multiple clerical errors when reporting the information to accounting staff. In addition, if the department has no responsibility for managing the investments it holds as custodian, the department should report these investments at book value instead of market value in accordance with accounting standards.

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.

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

Sincerely,
OREGON AUDITS DIVISION

Kelly L. Olson, CPA
Audit Manager

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cc: Kay Erickson, Chief Financial Officer
Betty Gambone, Internal Auditor
Michael J. Jordan, Director, Department of Administrative Services