Office of the Secretary of State

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February 1, 2012

Tim Wood, Director
Oregon Parks and Recreation Department
725 Summer Street NE, Suite C
Salem, Oregon 97301

Dear Mr. Wood:

We have completed audit work of selected financial accounts at the Oregon Parks and Recreation Department (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
GAAP Fund 1107 – Environmental Management Fund		
0065	Unreconciled Deposit	$ 902,572
0070	Cash on Deposit with Treasurer	45,364,048
0220	Park User Fees	14,087,335
13xx	Transfers In	59,506,836

SFMA Account	Description	Audit Amount
14xx, 18xx	Transfers Out	$ 12,956,178
3111	Regular Employees	23,001,037
3210	Public Employees Retirement Contribution	1,878,884
3212	Pension Bond Assessment	1,254,992
3221	Social Security Taxes	1,893,230
3263	Medical, Dental, Life Insurance	7,913,763
4xxx	Services and Supplies	26,686,483
6xxx	Special Payments	8,237,482

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. As discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency.

Significant Deficiency

Methodology for accruing special payment expenditures could be strengthened

The quality of the state's Comprehensive Annual Financial Report depends on the accuracy and completeness of year-end closing activities, including the preparation of accruals. Department management is responsible for ensuring the accuracy and completeness of the information that supports its year-end adjustments.

During fiscal year 2011, department management used a methodology it believed would reasonably estimate special payment expenditures expected to be submitted for reimbursement within 90-days of fiscal year end. The methodology was to accrue the remaining balance of all special payment grants that ended on June 30, 2011.

This methodology resulted in management over-estimating its accrual by more than 50% of the actual expenditures that ultimately occurred during the 90-days following the fiscal year end. The variance between the accrued and actual expenditures results from several factors. First, the methodology assumes the grantees all have eligible expenditures to submit for reimbursement to close out the entire balance of their grants at June 30, 2011.

A number of grantees notified the department, after fiscal year-end, that they would not be submitting requests for the remainder of their grant balance.

Second, according to management, some grantees were allowed an extension of time to use their grant. The extension was not anticipated when the accrual was calculated. Third, management did not identify and accrue expected payments for any of the ongoing grants and forgot to include one of the grants that ended on June 30, 2011. The net impact of these deficiencies was an overstatement of the special payments account of $667,906.

We recommend department management consider analyzing historical data for payment trends and applying any other known factors that could assist them in developing an accrual methodology that more closely estimates only those expenditures reasonably expected within 90-days of fiscal year end.

The significant deficiency, along with your response, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2011. 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 significant deficiency 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 15, 2012.

This communication is intended solely for the information and use of management, others within the organization, and the Oregon Parks and Recreation Commission 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 Rebecca Jasso, Bevin Clapper and the department staff for their assistance and cooperation during the 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: Lisa VanLaanen, Assistant Director of Administration
Rebecca Jasso, Accounting and Payroll Manager
Bevin Clapper, Internal Auditor - Quality Assurance Coordinator
Davis Moriuchi, Chair, Oregon Parks and Recreation Commission
Michael J. Jordan, Director, Department of Administrative Services