

Office of the Secretary of State

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Audits Division

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January 14, 2013

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, 2012.

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, 2012, 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>		
0542	Accounts Receivable- Federal Unbilled	\$ 4,792,955
0543	Accounts Receivable- Federal Billed	8,603,661
0224	Hunter and Angler Licenses	45,283,182
0300	Federal Revenue	63,038,421
4xxx	Services and Supplies	41,766,937

<u>SFMA Account</u>	<u>Description</u>	<u>Audit Amount</u>
61xx	Transfers Out	\$ 10,086,709
3111	Regular Employees	47,460,025
3210	Public Employees Retirement Contributions	7,006,532
3212	Pension Bond Assessment	2,891,916
3221	Social Security Taxes	3,840,083
3263	Medical, Dental, Life Insurance	15,331,545

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 material weakness and another deficiency that we consider to be a significant deficiency.

Material Weakness

Federal Revenue Accruals

The state's accounting policy directs that revenue, within governmental funds, be recognized using the modified accrual basis of accounting. Under this basis of accounting, revenue must be both measurable and available to finance current period expenditures. For the state, revenue is considered "available" if it is collected within 90 days of the fiscal year end.

Related to federal contracts, the department incurs expenditures for which it is later reimbursed by the federal government. Generally, the department estimates the federal revenue it will receive within 90 days of year end by accruing revenue for all unreimbursed expenditures and then backing out amounts not expected to be received within the 90 days. For fiscal year 2012, management did not back out amounts related to contracts that tend to have a longer reimbursement process. Consequently, federal revenues were overstated by nearly \$9.8 million.

We recommend management strengthen its methodology for accruing federal revenue by ensuring its methodology reflects the delays in the federal revenue reimbursement process.

Significant Deficiency

Services and Supplies Expenditure Accruals

Generally, governmental funds accrue expenditures and related liabilities in the fiscal year in which the government incurs the liability. The Oregon Accounting Manual refers to a 90 day accrual period; state agencies are to estimate and accrue expenditures that are to be paid within 90-days of the fiscal year end. Department management has not developed a

methodology to estimate and accrue expenditures for services and supplies. Management has a method to account for expenditures processed up to month 13 close, but does not estimate expenditures after the close and before September 30. During our testing, we identified nearly \$570,000 in expenditures that should have been accrued to fiscal year 2012. Similarly, we found more than \$1 million in expenditures that should have been accrued to fiscal year 2011.

We recommend department management develop a methodology to estimate and accrue expenditures expected to be paid within 90-days of the fiscal year end.

Prior Year Finding

In the prior fiscal year, we reported a significant deficiency related to the department's methodology for accruing long-term federal revenue receivables in a letter dated February 1, 2012. This finding can also be found in the Statewide Single Audit Report for the fiscal year ended June 30, 2011; see Secretary of State audit report number 2012-08, finding number 11-14. During fiscal year 2012, the department did not take sufficient measures to address this issue. Due to the significant misstatement noted in current year test procedures, we have issued a current year material weakness finding. Refer to the finding noted in the "Material Weakness" section above for more information. This finding will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2012, with a status of no corrective action taken.

The significant deficiency and material weakness, along with your responses, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2012. 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 and material weakness 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 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 Wednesday, January 30, 2013.

This communication is intended solely for the information and use of management, others within the organization, 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.

Roy Elicker, Director
Oregon Department of Fish and Wildlife
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We would like to express our appreciation to Margaret Wert and 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: Bobby Levy, Chair, Oregon Fish and Wildlife Commission
Debbie Colbert, Deputy Director for Administration
Lori LeVeaux, Administrative Services Division Administrator
Michael J. Jordan, Director, Department of Administrative Services