

**Office of the Secretary of State**

Kate Brown  
Secretary of State



**Audits Division**

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February 12, 2014

Michael Jordan, Director  
Department of Administrative Services  
155 Cottage Street NE, U20  
Salem, Oregon 97301

Dear Mr. Jordan:

We have completed audit work of selected financial accounts at your department for the year ended June 30, 2013. This audit work was not a comprehensive financial audit of the department, but was performed as part of our annual audit of the State of Oregon's financial statements. We audited accounts that we determined to be material to the State of Oregon's financial statements.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements of the State of Oregon as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, we considered the department's internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances 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.

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 a combination of deficiencies, in internal control, 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist

that have not been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

### **Significant Deficiencies**

#### **Improve Treasury Fund 0401 Reconciliation Procedures**

Department management is responsible for ensuring the cash balance in the accounting system reconciles to the Treasury cash balance for fund 0401. During our audit, we found the department's procedures for the reconciliation of fund 0401 did not encompass all deposits in GL account 0065, "Unreconciled Deposits". By not including all deposits in GL account 0065 in the reconciliation process, there is a potential for misstatement of the reported cash balance due to the timing of deposits.

**We recommend** department management incorporate procedures into the current reconciliation of fund 0401 to encompass unreconciled deposits in GL account 0065.

#### **Improve Accounting Procedures around Buildings and Building Improvements**

The Department owns and operates approximately \$340 million worth of buildings. During our audit, we found that the review processes were not always adequate to ensure the proper recording of buildings and building improvements. Specifically, we noted the following:

- Two instances where the estimated disposal amount for a replaced asset was not adequately supported, resulting in an adjustment to increase building assets by approximately \$300,000 and related accumulated depreciation accounts by approximately \$225,000.
- One instance where repair and maintenance expenses were inappropriately capitalized. This resulted in an overstatement in the buildings and related accumulated depreciation accounts of approximately \$61,000 and \$3,000, respectively.
- Two instances where projects were not capitalized timely as required by general accounting principles. This resulted in an understatement in the buildings and related accumulated depreciation accounts of approximately \$910,000 and \$12,000, respectively.
- Two instances where the Enterprise Asset Management staff's review of projects being capitalized was not documented.

**We recommend** department management strengthen review processes over the capitalization and disposal of buildings and building improvements to prevent similar errors from occurring in the future.

The above significant deficiencies, along with your response for each finding, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2013. Please prepare a response to each finding and include the following information as part of your corrective action plan:

- 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.

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- 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 18, 2014.

The purpose of this letter is solely to describe the scope of our testing of internal control and the result of that testing, and not to provide an opinion on the effectiveness of the department's internal control. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control. Accordingly, this letter is not suitable for any other purpose.

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

Sincerely,  
OREGON AUDITS DIVISION

Julianne Kennedy, CPA  
Audit Manager

JK:BTN:nmj

cc: Sarah Jo Chaplen, Deputy Director  
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