

Office of the Secretary of State

Kate Brown
Secretary of State



Audits Division

Gary Blackmer
Director

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January 21, 2014

Doug Decker, State Forester
Oregon Department of Forestry
2600 State Street
Salem, Oregon 97310

Dear Mr. Decker

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.

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 and therefore, material weaknesses may exist that have not been identified. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

Material Weakness

Long-Term Accounts Receivable 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 recorded in the current year 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. The receivable associated with revenue that is collected after the 90 day accrual period is recorded as a long-term receivable.

Department management records all receivables at fiscal year end as current receivables. Management has not developed a methodology to estimate and accrue, as long-term, the portion of its receivable balance that is expected to be received after the state's 90-day accrual period. Consequently, current accounts receivable, and related revenue, were overstated by nearly \$6.4 million.

We recommend management develop a methodology to estimate and accrue, as long-term, the portion of its receivable balance it expects to receive after the state's 90-day accrual period.

The above material weakness, along with your response to the finding, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2013. Please prepare a response to the 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.
- 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 January 31, 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.

Doug Decker, State Forester
Oregon Department of Forestry
Page 3

We appreciate your staff's assistance and cooperation 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: Paul Bell, Deputy State Forester
Satish Upadhyay, Administrative Services Division Chief
Mark Hubbard, Fiscal Services Unit Manager
Antonia Allen, Internal Auditor
Tom Imeson, Chair, Board of Forestry
Michael J. Jordan, Director, Department of Administrative Services