

Office of the Secretary of State

Kate Brown
Secretary of State

Robert Taylor
Deputy Secretary of State



Audits Division

Gary Blackmer
Director

255 Capitol St. NE, Suite 500
Salem, OR 97310

(503) 986-2255

January 27, 2015

Doug Decker, State Forester
Oregon Department of Forestry
2600 State St.
Salem, OR 97310

Dear Mr. Decker:

We have completed audit work of selected financial accounts at your department for the year ended June 30, 2014. 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, 2014, 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify the following deficiencies in internal control that we consider to be significant deficiencies.

Significant Deficiencies

Accounting for Liabilities Needs Improvement

Liabilities directly related to the Environmental Management Fund and expected to be paid from the fund with current resources, should be reported in the Environmental Management Fund in the state's financial statements. In fiscal year 2014, the department obtained a short-term loan to cover department expenses incurred by a heavy forest fire season. Department management does not have policies or procedures in place to account for loans, and recorded the loan liability in the Government-Wide Reporting Fund, rather than the Environmental Management Fund. Subsequent to the close of the fiscal year and our audit inquiries, the department sought guidance from the Department of Administrative Services on how to properly account for the loan; and as a result, adjustments were made to properly reflect the loan balance of \$20 million in the Environmental Management Fund.

We recommend department management seek appropriate and timely guidance prior to year-end to properly record transactions for financial reporting purposes.

Controls to Ensure Proper Recording of Revenue Need Improvement

The Oregon Accounting Manual (OAM) provides a comprehensive set of policies and procedures to assist agencies with reporting financial transactions in accordance with generally accepted accounting principles. The OAM includes guidance on establishing internal controls to help ensure all transactions are recorded in the financial system and are supported by appropriate documentation. An adequately designed system of internal controls includes periodic monitoring of controls by management to ensure they are implemented and functioning as intended.

During testing of the State Forest Lands and Other Charges for Services revenue accounts, we identified the following weaknesses in internal controls over the recording of revenue:

- The department could not locate supporting documentation for 3 of the 14 items we selected for cut-off testing in Other Charges for Services.
- A November 2013 reduction of revenue transaction was not entered into the subsidiary system. This error caused revenue in the state's accounting system to be overstated by \$71,000;
- Management did not maintain evidence of its controls by ensuring the reconciliations of the subsidiary data to source documentation were retained. Further, because evidence of the reconciliation control work was not retained, more time was spent than necessary by agency and audit staff to re-collect and verify the controls.

During fiscal year 2014, management operated with staffing constraints, especially due to a heavy fire season. When accounting staff are re-assigned it is especially important to ensure controls are being properly performed and documentation is retained to support the effectiveness of controls and the accuracy of transactions.

We recommend management strengthen its review and monitoring of internal control procedures, implementing policies if needed, to ensure staff are performing procedures and retaining documentation as necessary to ensure the complete and accurate recording of revenue.

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, 2014. 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.
- 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 5, 2015.

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 Michelle Searfus or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Julianne Kennedy, CPA
Audit Manager

JK:ms

cc: Paul Bell, Deputy State Forester
Satish Upadhyay, Administrative Services Division Chief
Mark Hubbard, Finance Director
Antonia Allen, Internal Auditor
Michael J. Jordan, Director, Department of Administrative Services