

**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 22, 2015

Curt Melcher, Interim Director  
Oregon Department of Fish and Wildlife  
4034 Fairview Industrial Drive SE  
Salem, OR 97302

Dear Mr. Melcher:

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 deficiency in internal control that we consider to be a significant deficiency.

### **Significant Deficiency**

#### **Federal Revenue Accrual Procedures Need Improvement**

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.

The department is responsible for estimating the revenue it will be receive within 90 days of the fiscal year-end. A receivable estimation methodology generally includes the consistent application of relevant factors and could include an analysis of collection patterns. Management should also monitor the reasonableness of the estimate. The department has modified its estimation process many times due to changes in senior accounting staff. When reviewing federal revenue and related receivables for fiscal year 2014, we found more revenue was received than the department had estimated. The department's estimate resulted in the following misstatements:

- Federal Revenue was understated by \$8.6 million;
- Accounts Receivable was understated by \$8.6 million; and
- Noncurrent Receivables were overstated by \$4.1 million.

**We recommend** management analyze collection patterns for the 90-day accrual period and develop a consistent methodology for estimating federal revenue, current receivables, and noncurrent receivables.

### **Prior Year Finding**

In a prior fiscal year, we reported a material weakness related to the department's federal revenue accruals in a letter dated January 14, 2013. This finding can also be found in the Statewide Single Audit Report for the fiscal year ended June 30, 2012; see Secretary of State audit report number 2013-07, finding number 12-06. During fiscal year 2014, the department partially corrected the finding. This finding will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2014, with a status of partial corrective action taken.

The above significant deficiency, along with your response, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2014. 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 February 3, 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: Debbie Colbert, Deputy Director for Administration  
Lori LeVeaux, Administrative Services Division Administrator  
Antonia Allen, Internal Auditor  
Michael J. Jordan, Director, Department of Administrative Services