



Kip Memmott
Division Director

November 7, 2024

Craig Prins, Director
Oregon Liquor and Cannabis Commission
9079 SE McLoughlin Blvd.
Portland, OR 97222

Dear Craig Prins:

We have completed audit work of selected financial accounts at the Oregon Liquor and Cannabis Commission (commission) for the year ended June 30, 2024. This audit work was not a comprehensive financial audit of the commission, 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, 2024, 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 we consider to be

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material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

Significant Deficiency

Ensure knowledge, skills, and abilities necessary to maintain internal controls

Criteria: OAM 10.10.00.PO.102

During the fiscal year 2024 audit of the Oregon Liquor and Cannabis Commission, auditors noted concerns regarding the commission's ability to perform regular responsibilities in compliance with standards for establishing and maintaining internal control outlined in the Oregon Accounting Manual. Management does not have sufficient understanding of the commission's internal systems or the state's accounting system to provide adequate review.

During our audit we noted the following issues and concerns:

- Management review of the year-end current bonds payable did not include consideration of the existing account balance, resulting in an overstatement of current bonds payable and an understatement of noncurrent bonds payable of \$2,230,000.
- Management was unable to provide support or sufficient explanation for the amounts used in their calculation of statutorily required transfers to the general fund and distributions to cities.
- Review of transfers to the general fund and distributions to cities identified treasury cash accounts, totaling \$384,136, that are not recorded in the state's accounting system.
- Commission staff provided inconsistent responses to standard inquiries regarding hypothetical situations related to management override of internal controls. Responses indicate staff may not understand their role in the commission's internal control processes and may not take appropriate action if asked by management to override internal controls

We recommend commission management dedicate resources to training staff responsible for operations related to commission responsibilities. **We also recommend** commission management document and implement procedures and methodologies to ensure effective transaction review.

Prior Year Findings

In the prior fiscal year, we reported significant deficiencies related to the commission's certification of statutory transfers and distributions in a letter dated January 16, 2024, and cash handling procedures in a letter dated February 8, 2023. These findings can also be found in the Statewide Single Audit Report for the fiscal year ended June 30, 2023, see Secretary of State audit report number 2024-14, finding number 2023-013, and 2022-017. During fiscal year 2024, the commission partially corrected both findings by making progress towards timely distributions as well as some work on reconciliations and making plans for future cash analysis to ensure compliance with state policies. These findings will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2024, with a status of partial corrective action taken.

The above significant deficiency, along with your response for the finding, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2024. 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 provide a response to Michelle Searfus by Thursday, November 14, 2024 and provide Rob Hamilton, State Controller, a copy of your Corrective Action Plan.

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, Audit Manager, or Katie Hull, Lead Auditor, at michelle.n.searfus@sos.oregon.gov or katie.hull@sos.oregon.gov.

Sincerely,

Office of the Secretary of State, Audits Division

cc: Tara Wasiak, Deputy Director
Kailean Kneeland, CFO
Nicole Pexton, Internal Auditor
Jean-Ame Polneau, Accounting Manager
Dennis Doherty, Commission Chairman
Berri Leslie, Director, Department of Administrative Services
Robert Hamilton, State Controller, Department of Administrative Services