



Steve Bergmann
Division Director

January 9, 2026

The Honorable Dan Rayfield, Attorney General
Oregon Department of Justice
1162 Court Street NE
Salem, Oregon 97301

Dear Attorney General Dan Rayfield:

We have completed audit work of selected financial accounts at the Oregon Department of Justice (department) for the year ended June 30, 2025. 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, 2025, in accordance with the 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 opinions 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 a 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 material weaknesses. We identified certain deficiencies in internal control that we consider to be significant deficiencies.

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Salem, Oregon 97310

Significant Deficiencies

Strengthen controls over lease accounting processes

- Criteria:** In accordance with state policy, the department is responsible to ensure proper accounting and reporting of its leases in accordance with Government Accounting Standards Board (GASB) statement 87, which prescribes the proper accounting of department leases. (Oregon Accounting Manual (OAM) 15.05.00 paragraph .101, GASB statement 87)
- Condition:** During state fiscal year 2025, the department revised its lease valuations and amortization schedules to address a prior year finding (2022-006) and to ensure the leased assets were accounted for in accordance with GASB statement 87 requirements. However, accounting entries were not made before year end close to reflect the department's updated calculations. During our review of the revised amortization schedules, we identified the following errors which the department applied retroactively back to fiscal year 2022.
- Operating expenses and taxes were capitalized, which should have been expensed.
 - Lease payments did not accurately reflect the required monthly payments per the agreement.
 - Nominal rates for most leases were changed and applied retroactively to state fiscal year 2022.
 - Due to an oversight, extension periods for two leases were not reflected on the respective schedules.
- Cause:** Department management has not developed policies and procedures for calculating lease balances. Staff did not fully understand or interpret the GASB statement 87 lease reporting requirements.
- Effect:** The Leased Buildings and noncurrent Lease Obligation account balances were misstated by \$5.9 million and \$17.9 million, respectively. Without established policies and procedures, management cannot ensure the consistent application of lease calculations.
- Recommendation:** We recommend management develop policies and procedures, to ensure consistent application of lease calculation methodologies. We also recommend management work with the Department of Administrative Services' State Accounting and Reporting Services to determine the entries needed to ensure the department's leases are accurately reflected in the state accounting system.

Payroll data integrity controls should be strengthened

- Criteria:** State policy requires the department to reconcile the payroll system to the state accounting system. (OAM 45.17.00 paragraph .101 and 10.60.00.PR paragraph .120)
- Condition:** The department uses Workday reports as a basis to calculate projected salaries for budgeting purposes. After each month closes, the salary projections are compared to actual payroll in the state's accounting system for purposes of analyzing differences between projected and actual payroll. However, the department does not currently reconcile payroll data between Workday and the state accounting system.
- Cause:** The department has not developed or implemented a process to reconcile Workday payroll data to the state's accounting system.
- Effect:** Without adequately designed and implemented controls to ensure Workday payroll data interfaces properly with the state's accounting system, the integrity of the department's payroll data could be compromised. Additionally, the department is not in compliance with state accounting policies and procedures, and there is a risk the payroll balances reported in the state's accounting system could be misstated.
- Recommendation:** We recommend department management comply with state accounting policies and procedures by designing and implementing controls to ensure the integrity of its payroll data. At a minimum, management should ensure payroll data is periodically reconciled between Workday and the state's accounting system.

Prior Year Findings

In the prior fiscal year, we reported an internal control finding 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 2023-005. During fiscal year 2025, the department completed all corrective actions for this finding.

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, 2025. 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 provide a response to Kelly Olson by January 16, 2026 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 Kelly Olson, Audit Manager or Alan Bell, Principal Auditor at kelly.i.olson@sos.oregon.gov or alan.j.bell@sos.oregon.gov.

Sincerely,

Office of the Secretary of State, Audits Division

cc: Benjamin Gutman, Interim Deputy Attorney General
Sarah Roth, Administrative Services Division Director
Berri Leslie, Chief Operating Officer
Robert Otero, Chief Financial Officer
Richard Rylander, Chief Information Officer
Darcy McCulloch, Accounting Manager
Claire Anderson, Chief Audit Executive
Betsy Imholt, Director, Department of Administrative Services
Robert Hamilton, State Controller, Department of Administrative Services