

## Office of the Secretary of State

Shemia Fagan  
Secretary of State

Cheryl Myers  
Deputy Secretary of State



## Audits Division

Kip R. Memmott, MA, CGAP, CRMA  
Director

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

503-986-2255

February 12, 2021

Andrew Stolfi, Director  
Department of Consumer and Business Services  
350 Winter Street NE  
Salem, Oregon 97309

Dear Mr. Stolfi:

We have completed audit work of selected financial accounts at your department for the year ended June 30, 2020. 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, 2020, 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 certain deficiencies in internal control that we consider to be a material weakness.

### Material Weakness

#### ***Strengthen controls to ensure complete implementation of new accounting standards***

Department management was responsible for implementing Governmental Accounting Standards Board (GASB) pronouncement 84, accounting for fiduciary activities, in fiscal year 2020. This required reclassification of certain fiduciary assets and liabilities into a new reporting framework.

It also required activity associated with the fiduciary assets and liabilities to be captured and reported on a new financial statement titled *Statement of Changes in Fiduciary Net Position* which had previously never been reported under prior GASB requirements. For the department, this fiduciary activity represents securities held on deposit for insurance providers in Oregon. As insurance providers maintain required balances, the corresponding activity is now required to be reported under GASB 84.

We found that the department did not correctly implement GASB 84 due to an incomplete understanding of the new accounting standard. The Department of Administrative Services (DAS) oversees the statewide reporting function and provides guidance to agencies, and it is the responsibility of each agency to understand and implement reporting standards properly. DAS provided a listing of the new GASB 84 transactions to the department, but the department did not record all the transactions because of a misinterpretation of the new standard and DAS's guidance. Not recording the securities activity resulted in a material financial reporting error of over \$400 million. Although these activities previously existed, this is the first year the department was required to report them.

**We recommend** department management allocate adequate resources to implement significant financial reporting changes and ensure complete reporting of fiduciary asset activity in future years.

### Other Issue

During the course of our audit, we became aware of the following matter that is considered an opportunity for strengthening internal controls. This matter does not require a written response from management.

#### ***Lack of documentation***

A strong system of internal controls is comprised of many elements. One element is readily accessible and complete documentation to support financial transactions and account balances. Without strong controls the risk of error or manipulation is elevated. The Oregon Accounting Manual requires all financial transactions to be supported by appropriate documentation that is readily available for examination. Although the accounting department ultimately records the transactions, the need to maintain adequate supporting documentation extends to other divisions of the department.

During the audit, we noted the following instances where adequate documentation either was not readily available or did not exist:

- For accounts receivable, documentation maintained with the accounting transaction included a summary sheet with little detail about the underlying accounts. The individual account detail is contained in other subsidiary systems. For specific accounts selected for review, we were unable to obtain information regarding the origin of the receivable because there are only a few staff with access to the subsidiary system and they were not available to provide the required information.
- For the allowance for uncollectible receivables, some receivables are largely uncollectible for various reasons. When we inquired about how the uncollectible percentage was determined, we were informed it was based on the professional judgment of the overseeing

manager. Although professional judgment is common to determine an uncollectible percentage, there was no documentation of the factors, methodology, or considerations that comprised the professional judgment. After discussions with the manager, we agree with the assessment that the accounts were largely uncollectible. However, maintaining documentation regarding the assessment is important to ensure consistency and continuity within financial transactions.

**We recommend** department management ensure that adequate documentation or access to documentation exists to readily support financial transactions across the department and all its divisions.

The above material weakness, along with your response, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2020. 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 Amy Dale by March 1, 2021 and provide Rob Hamilton, Statewide Accounting and Reporting Services (SARS) Manager, 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 Amy Dale, Audit Manager or Sarah Anderson, Principal Auditor at (503) 986-2255.

Sincerely,

*Office of the Secretary of State, Audits Division*

cc: Mary Moller, Deputy Director  
Blake Johnson, Central Services Division Administrator  
Carolina Marquette, Financial Services Manager  
Michael Campbell, Chief Internal Auditor  
Katy Coba, Director, Department of Administrative Services  
Robert Hamilton, SARS Manager, Department of Administrative Services