

Office of the Secretary of State

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Audits Division

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February 12, 2021

Margaret Salazar, Director
Oregon Housing and Community Services Department
725 Summer Street NE, Suite B
Salem, Oregon 97301

Dear Ms. Salazar

In addition to the financial statement audit we conducted of the Elderly and Disabled Housing Fund and the Housing Finance Fund, we also conducted audit work of selected financial accounts for the year ended June 30, 2020 as part of our annual audit of the State of Oregon's financial statements. We are communicating the results of that audit work in this letter.

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. Given these limitations, during the audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Other Issues

During the audit we became aware of the following matters that are considered an opportunity for strengthening internal controls. These matters do not require a written response from management.

Reconciliations were not Reviewed Timely

Reconciling department records to bank statements is an important control required by state rules. Reconciliations should be regularly prepared and reviewed timely to identify and correct any discrepancies. During the audit we selected eight reconciliations to review and identified that two were not reviewed timely. Department staff cited staff turnover as the reason for delays. We also noted the department does not have a policy that defines expectations for timely preparation and review of reconciliations.

We recommend department management document and enforce expectations for the timely preparation and review of reconciliations.

Documentation was Not Maintained for All Transactions

Maintaining documentation is an important control required by state rules. During testing of the Distributions to Non-Profits account transactions we identified two transactions where documentation could not be located to support the entry. According to department staff, at the time of the entry there was supporting documentation, but they either disposed, or misplaced the support.

We recommend department management ensure controls are in place to maintain supporting documentation for all transactions.

Multiple Transactions were Not Properly Recorded

Management is responsible for ensuring transactions are recorded in the correct fiscal year and for maintaining controls to ensure transactions are accurate.

During our review of the Distributions to Non-Profits account we identified nine transactions that were recorded incorrectly. Seven transactions were recorded to the wrong account resulting in an overstatement to Distributions to Non-Profits of approximately \$12 million. One transaction recorded a reduction of expenditures in the wrong period resulting in an understatement to Distributions to Non-Profits of approximately \$1.2 million. Another transaction was recorded to the wrong vendor in SFMA but had no net effect on the balance of the account. The department's review was ineffective to identify the errors and consideration was not given to the financial statement effect of recording a reduction of expenditures in a fiscal year different from when the related expenditures occurred.

We recommend department management strengthen internal controls to ensure entries are being recorded correctly, including in the correct account, to the correct vendor, and in the appropriate fiscal year.

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 at (971) 283-0031.

Sincerely,

Office of the Secretary of State, Audits Division

STATE OF OREGON

cc: Caleb Yant, Deputy Director
Gaby Zhu, CFO
Christian Kelly, Internal Auditor
Roseanne Ward, Debt Management Section Manager
Claire Hall, Chair, Oregon Housing Stability Council
Katy Coba, Director, Department of Administrative Services
Robert Hamilton, SARS Manager, Department of Administrative Services