



**Shemia Fagan** Secretary of State  
**Cheryl Myers** Deputy Secretary of State, Tribal Liaison  
**Kip Memmott** Audits Director

February 6, 2023

Leah Feldon, Interim Director  
Oregon Department of Environmental Quality  
700 NE Multnomah Street, Suite 600  
Portland, OR 97232

Dear Interim Director Feldon:

We have completed audit work of selected financial accounts at your department for the year ended June 30, 2022. 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, 2022, 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

## Other Issues

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

### *Cash Reconciliations*

Oregon Accounting Manual (OAM) 10.20.00.PR states that reconciliations between agency records and Treasury statements should be performed and retained and reviewed by management. The Statewide Financial Management System (SFMS) desk manual also maintains that reconciliations must be timely. During testing over agency reconciliations for fiscal year 2022, we noted reconciliations were not reviewed by management timely throughout the fiscal year and documentation of the preparation date was not maintained. Therefore we were unable to confirm reconciliations occurred timely. Additionally, all reconciliations reviewed contained a perpetual line item consisting of unidentified unreconciled items for extended periods of time.

### *GASB 87 Leases*

During fiscal year 2022, the State of Oregon implemented Government Accounting Standards Board (GASB) Statement 87, which relates to accounting for leases. To facilitate implementation, Statewide Accounting and Reporting Services (SARS) created OAM 15.60.30 to provide statewide guidance on appropriate methodologies for determining contract rates, lease terms, borrowing rates, and accounting entries as outlined by standards. During our review of the department's implementation of GASB 87, we noted the department's application of borrowing rate did not align with SARS guidance, which resulted in an audit adjustment. OAM 15.60.30 should be consulted for all future lease transactions to ensure proper calculations under GASB 87 standards.

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, Senior Auditor, at [michelle.n.searfus@sos.oregon.gov](mailto:michelle.n.searfus@sos.oregon.gov) or [katie.hull@sos.oregon.gov](mailto:katie.hull@sos.oregon.gov).

Sincerely,

*Office of the Secretary of State, Audits Division*

cc: Matt Davis, Interim Policy and External Affairs Manager  
Brian Boling, Central Services Division Administrator  
Anne Marie Murphy, Accounting Manager  
Berri Leslie, Interim State Chief Operating Officer, Department of Administrative Services