

Office of the Secretary of State

Kate Brown
Secretary of State

Robert Taylor
Deputy Secretary of State



Audits Division

Gary Blackmer
Director

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

(503) 986-2255
fax (503) 378-6767

June 11, 2014

Gene Bentley, Commissioner
Oregon Real Estate Agency
1177 Center Street NE
Salem, Oregon 97301-2505

Dear Mr. Bentley:

We performed a limited inspection of Oregon Real Estate Agency's (OREA) established internal controls over selected financial accounts as a result of its transition from Department of Administrative Services' accounting services to the use of an in-house accountant. Our objective was to consider whether selected controls were adequately designed and implemented to meet financial reporting objectives. We also performed limited testing of controls to determine if they were operating effectively. To meet our objective, we looked at internal controls over the following accounts:

- Cash
- License Revenue
- Mileage Reimbursement Expense
- Salary Expense
- Other Receivables/Allowance for Uncollectibles
- Securities Held in Trust/Reserved Securities in Trust

In addition, we reviewed OREA's compliance with licensing requirements established by Oregon Revised Statutes (ORS).

Based on our inspection, we found most of OREA's controls appear to be sufficient; however, we did find some areas where controls can be implemented or strengthened. The high level of collaboration with your staff has already allowed for the immediate implementation of some of the following recommendations.

1. Securities in Trust/Reserved Securities

Per ORS 696.525 and 696.527, escrow agencies must deposit surety bonds or other securities for at least \$50,000 at the time of licensure. When OREA assumed the accounting function from Department of Administrative Services (DAS), approximately \$6.125 million in security bonds had not been recorded as assets (securities in trust) or liabilities (reserved securities).

To provide assurance of compliance with the ORS, we recommend management consider implementing the following controls:

- reconcile eLicense records to Oregon State Treasury's records of securities on deposit;
- systematically review eLicense records to ensure securities have not expired, bonds exist and both are recorded in the correct amount; and
- add a step to the financial year-end procedures to ensure bonds held at OREA are recorded in the financial records.

2. Other Receivables-Noncurrent/Allowance for Uncollectibles

When OREA assumed the accounting function from DAS, civil penalties that were expected to be collected within 90 days of fiscal year-end were recorded as noncurrent receivables but should have been recorded as current receivables. In addition, the noncurrent receivables included penalties dating back to 1981 that could have been written off as uncollectible, in accordance with ORS 293.240. When recording receivables, management should consider GASB 65, which takes effect this year and changes the reporting requirements for some items previously reported as assets and liabilities.

We recommend management implement procedures and internal controls to more accurately estimate collectible civil penalties by developing an allowance methodology that estimates the amount sent to private collection agencies that may be uncollectible, and developing criteria to determine when amounts should be written off as uncollectible.

3. Cash Receipts

Although OREA employs compensating monitoring controls over the opening of cash receipts in the office, controls could be added to strengthen compliance with Oregon Accounting Manual 10.20.00.PO.103.


We recommend management consider:

- adding logging of receipts to the receptionist's duties; and
- comparing the receipt log to eLicense after the data has been entered.

We appreciate the time, effort and cooperation your staff provided. The professionalism we encountered and openness to suggestions have made this a collaborative process, and hopefully provided you with useful information.

This letter is intended solely for the information and use of OREA management and is not intended to be and should not be used by anyone other than these specified parties. Should you have any questions, please contact Janet Lowrey or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION


Julianne Kennedy, CPA
Audit Manager

JK:JL:nmj

cc: Dean Owens, Deputy Commissioner