



Oregon

Kate Brown, Governor

Higher Education Coordinating Commission

Ben Cannon, Executive Director
255 Capitol Street NE, Third Floor
Salem, OR 97310
www.oregon.gov/HigherEd

February 24, 2017

RECEIVED

FEB 24 2016

SECRETARY OF STATE
AUDITS DIVISION

Kelly Olson
Financial Audit Administrator
Secretary of State
Audits Division
255 Capitol St NE
Salem, OR 97310

RE: Response to SOS FY16 CAFR Audit

Dear Kelly,

Thank you for your letter regarding the audit of our accounts that are material to the State of Oregon's Financial Statements.

The attached packet contains HECC's responses to the findings contained in the Secretary of State's Letter

Please let us know if you have any questions.

Sincerely,

Ben Cannon
Executive Director
Higher Education Coordinating Commission
255 Capitol ST NE
Salem, OR 97310

CC: Bob Brew, Deputy Executive Director
Patrick Crane, Director, Office of Community Colleges
Dave Zerbe, Director of Operations
Andrew Rogers, Director, University Finance
Neil Bryant, Chair, Higher Education Coordinating Commission
Lora Carson, Budget and Accounting Manager
Serena Harris, Accounting Team Lead
Katy Coba, Director, Department of Administrative Services

FEB 24 2016

SECRETARY OF STATE
AUDITS DIVISION

**Higher Education Coordinating Commission
Office of Operation
Response to CAFR Audit Findings**

**Finding #1 – Distribution to Community Colleges – Accrual Process –
Material Weakness**

The department distributes money to community colleges for construction projects and Title II grant payments. To ensure distributions are recorded in the proper fiscal year, the department should have year-end accrual processes in place to accrue costs incurred during the year. For construction projects, the distributions are made on a reimbursement basis throughout the course of a project. The department, however, does not have a process in place to accrue distributions for project costs incurred before fiscal year-end. For title II payments, the department has a process in place to accrue the amount remaining on the grant at the end of the fiscal year.

When testing distributions to community colleges, we identified the following errors:

- Distributions for construction projects were overstated by about \$10.7 million for fiscal year 2016 because the department did not make accrual adjustments to record distributions in the proper fiscal years.
- Distributions related to Title II payments were overstated by about \$1.6 million as the department did not make an accrual adjustment in the prior fiscal year, resulting in some distributions being recorded as fiscal year 2016 instead of fiscal year 2015 distributions.

We recommend department management implement adequate processes that ensure year-end accruals for distributions for construction projects and Title II grant payments are properly and timely recorded in the accounting records.

Response: We agree with this finding. The Office of Operations is currently drafting policies and procedures for all year-end close processes. They will be in place by May 1, 2017 so we will have adequate time to train our Accountants on them. We are also creating a year-end process checklist to distribute to all Accountants so that important procedures such as accruals are made at the appropriate time.

Finding #2 – Improve Processes Over University Debt – Material Weakness

Due to legislation passed in 2013, the seven universities comprising the Oregon University System become separate legal entities. As a result, effective July 1, 2015, the department became responsible for accounting for various transactions related to the universities including \$2.2 billion in bond debt and the related debt management agreements requiring each university to pay the State principal and interest related to certain debt issuances.

As of the end of fiscal year 2016, the department had not established processes to properly account for and monitor the transactions associated with this debt. Without an adequate process in place, there is a risk that the accounting records may contain errors that would not be detected.

The department recorded transactions associated with this debt in the spring of 2016 and relied heavily on assistance from the Department of Administrative Services Statewide Accounting and Reporting Unit to record the transactions. Overall, the balances were fairly reported as of June 30, 2016. Our audit did identify a \$27 million overstatement in interest income and \$818,000 understatement in interest expense.

We recommend department management finalize and document the processes and controls over the accounting and monitoring of the university debt related accounts.

Response: We agree with this finding. Recording the debt was a one-time event for our department. Now that the debt is on our books and HECC is part of the University bond process, we will be able to get our structure ready ahead of any new bond sales. This will enable us to properly account for all current and future debt. The structure for the February 2017 bond sales is in place, and the new debt will be accounted for properly. We are also in the process of drafting policies and procedures to properly account for all University and Community College bonds and debt service.

We are working with SARS and DAS to ensure our policy includes the correct Tcodes and procedures for recording the accruals of payment to the colleges and universities.

Finding #3 Cash Reconciliation Not Reviewed – Significant Deficiency

The Oregon Accounting Manual requires the department to regularly perform reconciliations of cash recorded in department records to amounts reported on trustee or treasury statements and that the reconciliations be independently reviewed by management.

Timely and effective reconciliations can help to timely identify and address errors or other problems that may have occurred. Although the department performed cash reconciliations during the fiscal year, the reconciliations did not always have evidence of a management review.

We recommend department management ensure reconciliations are timely reviewed by management.

Response: We partially agree with this finding. While the reconciliations viewed by Secretary of State were not signed, it is our policy to have either the Accounting Team Lead or Budget and Accounting Manager review and sign the reconciliation forms, and have many that are signed timely on file. We will remind staff who prepare the reconciliations of this procedure and ensure all future reconciliations are reviewed and signed. In addition, the Accounting Team Lead will be reviewing any unsigned older reconciliations to ensure accuracy.