OREGON UNIVERSITY SYSTEM

Communication of Other Matters
and Best Practices

For Audit Year Ending June 30, 2010
November 30, 2010

Oregon Secretary of State Audits Division
Salem, Oregon

Oregon State Board of Higher Education
Eugene, Oregon

In planning and performing our audit of the financial statements of Oregon University System for the year ended June 30, 2010, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of other matters that are an opportunity for strengthening internal controls and operating efficiency as well as industry best practices. The attachment that accompanies this letter summarizes our comments, suggestions and best practices regarding those matters. We would like to mention that though these matters are not significant to the financial statements and accordingly have not been categorized as material weaknesses or significant deficiencies. This letter does not affect our report dated November 30, 2010, on the financial statements of Oregon University System.

We have discussed these comments with Oregon University System personnel, and would be pleased to discuss them in greater detail at your convenience, to perform any additional study of these matters, or to assist you in implementing these recommendations.

The management responses (“OUS Response”) included in this letter have not been subject to audit procedures and thus we express no opinion on those responses.

This letter is intended solely for the use of the Oregon Secretary of State Audits Division, the Oregon State Board of Higher Education, management and others within the System and is not intended and should not be used by anyone other than these specified parties.

Very truly yours,

Scott Simpson
For Moss Adams LLP
Consideration of Internal Control Environment (System Wide)

Over the course of the past year, the State Board of Higher Education and the Oregon University System have embarked on many discussions and deliberations regarding strategic planning for the future. As the auditors of the System, we would like to stress the ongoing importance of ensuring that appropriate financial infrastructure is considered as strategies are put into place. A strong internal control environment requires adequate staffing levels at the Chancellor’s Office and at the Universities. It also requires appropriately educated and experienced personnel, training and mentoring of accounting and finance personnel, and a system of monitoring and follow up on System policies and procedures. In addition, a strong Internal Audit Division that is of appropriate size and skill set can be invaluable in helping the System maintain operational quality control, reduce risks and enhance System safety.

Recommendation: We recommend that the State Board of Higher Education, through the Chancellor’s Office obtain a self assessment of each institution’s finance and accounting departments that focuses on staffing levels, skill sets, education and experience of its personnel. We further recommend that this self assessment, prepared by each institution’s senior management be reviewed with additional feedback from the System’s Internal Audit Division and the Controller’s Division. This information would allow the Board and the System to identify risk areas as well as strengths within each institution in order to better strategically plan future actions and needs.

OUS Response: We concur with the observation and recommendation. The State Board of Higher Education and System management will remain cognizant of appropriate financial operational infrastructure during the course of discussions and deliberations regarding strategic planning for the future. The System will continue its current policy and process where Chancellor’s Office personnel are involved in the recruitment of all key financial management positions within the System. This process helps ensure that the persons filling these positions have the appropriate level of education and experience. In addition, the Chancellor’s Office will direct each institution’s executive management to prepare the recommended self assessment. The System’s Controller’s Division and Internal Audit Division will review the self assessments and identify risk areas as well as strengths within each institution. The self assessment process will be reviewed with the Finance Committee of the State Board of Higher Education in its meeting of September, 2011.
Centralization of Accounting Functions (System Wide)

Over the past few years we have observed the System and its institutions struggling with limited resources and growing expenses. Budget reductions are not uncommon and the pressure to limit the number of administrative positions is high. At the same time, complexities are increasing in specific accounting functions and hiring experts in those areas is not always an option. One solution that the System has considered in prior years is to centralize certain administrative functions to achieve economies of scale, especially in the case of technical areas that require specialized knowledge and/or training. Centralization, either within the Chancellor’s Office or at a particular campus, would improve the consistency with which accounting principles are applied and strengthen the control environment. For example, fixed asset accounting within the Banner system is complex and requires specialized training and expertise that is difficult to maintain at the regional/smaller campuses due to the low volume of related transactions. A single point of responsibility for fixed asset accounting for the regional/smaller institutions may provide a stronger control system over this important area.

**Recommendation:** We recommend that the System consider the cost/benefit of centralization of selected accounting functions where deemed feasible to increase consistency and accuracy of accounting and reporting.

**OUS Response:** We concur with the observation and recommendation. The System will consider the cost/benefit of combining selected accounting functions where deemed feasible to increase consistency and accuracy of accounting and reporting. This will be an ongoing process and the results will be reported as a part of the regular meetings of the Finance Committee of the State Board of Higher Education.

Student Billing and Receipting Credit Adjustments (PSU)

During our audit procedures performed in the area of student billing and receipting we noted that Portland State University has designed a control process to detect multiple unauthorized charge reversals and negative payments made to student accounts. A weekly query is executed, resulting in a report that details multiple negative adjustments made to a student’s account. However, this report is not being reviewed on a consistent basis.

**Recommendation:** We recommend Portland State University implement the regular review of the Multiple Negative Charges report for inappropriate charge reversals and negative payments. We recommend this review be assigned to an individual who does not have access to reverse charges or record negative payments.

**OUS Response:** We concur with the observation and recommendation. The Multiple Negative Charges query is executed weekly. Beginning June 1, 2010, the report has been reviewed by the Student Accounts Supervisor or the Bursar with sign off from the Director of Business Affairs. The Director of Business Affairs does not have the ability to reverse charges or record negative payments.
Payroll Timecards (UO)

During our audit procedures performed at the University of Oregon we selected a timecard from a department that uses an electronic timekeeping system. We noted that the timecards are approved manually and are not retained. Departmental payroll administrators upload the information from the electronic timecards into the payroll system and send the department supervisor a report for additional review. If there are no changes necessary, the report is not sent back to the departmental payroll administrator and is not retained by the department supervisor.

Recommendation: We recommend that the University of Oregon departments retain documentation of all reports that are approved and updated by supervisors or implement a form of electronic documentation evidencing supervisor approval of timecards.

OUS Response: We concur with the observation and recommendation. BAO Payroll will reinforce with Departmental Payroll Administrators that effective internal controls necessitate documented positive response from department supervisors, even if no changes to the uploaded information are necessary. This information will be communicated during the next regularly-scheduled meeting of the HRIS Large Group and will be followed-up via memorandum.

Fixed Assets (UO)

During our audit procedures performed at the University of Oregon, we selected a fixed asset addition that was acquired from multiple funding sources. We noted that the fund source distribution was incorrect for a portion of the addition.

Recommendation: We recommend that the University of Oregon implement a thorough review procedure for assets acquired with multiple funding sources to ensure appropriate fund source distribution.

OUS Response: We concur with the observation and recommendation. The funding allocation for the asset in question was changed via Journal Voucher after the asset had been capitalized and added to the Fixed Asset listing. BAO Financial Services has implemented an automated process, which has already been run and will continue to be run on a quarterly basis that identifies these types of adjustments so that the Fixed Asset records can be adjusted accordingly.
Fixed Assets (EOU)

During our audit procedures performed at Eastern Oregon University, we noted several contractor invoices related to construction projects did not include evidence of the departmental review of supporting documentation. As supporting documentation is not supplied to the Business Affairs Office for final approval and payment processing, authorization did not include review of the documentation and proper cutoff was not verified.

_Recommendation:_ We recommend that Eastern Oregon University formalize the review and approval process for contractor invoices related to construction projects and that the Business Affairs Office require all departments submitting invoices for payment clearly indicate the fiscal year in which the expense should be recorded to ensure proper cutoff is maintained.

_OUS Response:_ We concur with the observation and recommendation. Based on recommendations that resulted from the auditors' initial fieldwork, EOU took corrective action to address these issues. After reading the final recommendation by Moss Adams we are in the process of further refining this corrective action.