



Auditing for a Better Oregon

January 15, 2004

Susan Castillo, State Superintendent of Public Instruction
Department of Education
255 Capitol Street NE
Salem, Oregon 97310

Dear Ms. Castillo:

The statewide single audit that included selected financial accounts and federal awards at Department of Education for the year ended June 30, 2003, has been completed.

This statewide single audit work is not a comprehensive audit of your agency. Instead, this audit permits us to give an opinion on the statewide financial statements contained in the State of Oregon's Comprehensive Annual Financial Report and to report on internal control and the state's compliance with laws and regulations. Regular audits of the department will continue on a periodic basis.

The following department accounts and transactions were audited to determine their fair presentation in accordance with generally accepted accounting principles in relation to the statewide financial statements.

<u>SFMA Account</u>	<u>Description</u>	<u>Audit Amount</u>
<u>General Fund (0001)</u>		
6200	Intraagency General Fund/Other Fund Transfer	\$ 0
<u>Educational Support Fund (1105)</u>		
0065	Unreconciled Deposit	2,433,674
0070	Cash on Deposit with State Treasurer	21,489,647
0542	Accounts Receivable – Federal Unbilled	13,818,064
0543	Accounts Receivable – Federal Billed	6,813,080
1302	Transfers In Lottery Proceeds	470,347,139
1306	Transfers In from DAS	190,027,016
6600	Distributions to Local School Districts	2,356,478,847

Management Letter No. 581-2004-01-01

Nutritional Support Fund (1109)

6725 Distributions to Non-Governments 25,575,498

Government Wide Fund (8500)

1276 Bonds Payable – Current 16,896,150

1714 Bonds Payable – Noncurrent 236,139,100

We also determined whether the department substantially complied with the federal requirements relevant to the following federal programs.

<u>CFDA Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
10.553	School Breakfast Program	\$20,673,101
10.555	National School Lunch Program	58,831,436
10.556	Special Milk Program for Children	153,535
10.559	Summer Food Service Program for Children	1,135,026

Based on our audit, we identified a reportable condition and another condition needing corrective action. Our findings and recommendations are presented in the enclosed Audit Findings and Recommendations Summary accompanying this letter.

The reportable condition, along with your response, will be included in our statewide audit report. Including your response with responses from other state agencies satisfies the federal requirement that management prepare a Corrective Action Plan (CAP) covering all reported audit findings. Satisfying the federal requirement in this manner, however, can only be accomplished if the response to each reportable finding includes the information specified by the federal requirement, and only if the responses are received in time to be included in the audit report. The following information is required for each response.

1. Your agreement or disagreement with the finding. If you do not agree with the audit finding or believe corrective action is not required, include in your response an explanation and specific reasons for your position.
2. The corrective action planned.
3. The anticipated completion date.
4. The name(s) of the contact person(s) responsible for corrective action.

The other condition is an issue of lesser significance that we wanted to communicate to agency management. This condition does not require a Corrective Action Plan. We will follow up on the department's progress in addressing this issue during the next fiscal year audit.

For the reportable condition, please respond by January 27, 2004.

Susan Castillo, State Superintendent of Public Instruction
Department of Education
Page 3

Should you have any questions, feel free to contact Ryan Dempster or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Jason M. Stanley, CPA
Audit Administrator

JMS:bk

cc: Bret West, Director of Management Services
Joyce Dougherty, Child Nutrition Director
Gary Weeks, Director, Department of Administrative Services

Audit Findings and Recommendations Summary
Department of Education Statewide Audit
State Fiscal Year 2003

REPORTABLE CONDITION

The Department of Education (department) has not developed controls to ensure fiscal actions are enforced when providers are found to have submitted meal reimbursement claims that are not payable under federal regulations. We reviewed two instances where the department issued fiscal action plans. Although the department distributed letters indicating the need for fiscal action, in both instances we found that the department was unable to verify that fiscal action was enforced by reducing future meal reimbursement claims.

We recommend that the department implement procedures to ensure that fiscal action plans are enforced.

OTHER CONDITION

The Department of Education (department) is required to submit monthly FNS-10 reports to the federal government detailing the number of free and reduced meals served. We found these reports to be inaccurate. The department has until February 2, 2004 to submit revised reports.

We recommend that the department resolve the reporting errors and submit revised reports to the federal government prior to the February 2, 2004 deadline.