



Auditing for a Better Oregon

January 11, 2006

Elizabeth Harchenko, Director
Department of Revenue
955 Center Street NE, Room 457
Salem, Oregon 97301-2555

Dear Ms. Harchenko:

The statewide single audit that included selected financial accounts at the Department of Revenue (department) for the year ended June 30, 2005, 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.

SFMA Account	Description	Audit Amount
General Fund		
0065	Unreconciled Deposit	\$244,013,134
0070	Cash on Deposit with Treasurer	42,528,040,917
0410	Taxes Receivable – Current	203,785,572
0411	Allowance for Uncollectible Taxes – Current	(27,741,725)
0420	Taxes Receivable – Noncurrent	507,438,912
0937	Allowance for Uncollectible Taxes – Noncurrent	(53,045,272)
0111	Personal Income Taxes	4,713,164,621
0115	Corporate Excise and Income Taxes	219,605,703
1301	Transfer in from Other Funds	37,856,120

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Health and Social Services Fund

0121	Cigarette Taxes	\$183,470,871
0182	Other Taxes	62,692,905

Based on our audit, we did not identify any reportable conditions related to the accounts audited. However, we did identify an other condition, which is an issue of lesser significance that we wanted to communicate to agency management. This condition is presented in the enclosed Audit Findings and Recommendations Summary accompanying this letter. 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.

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

Sincerely,
OREGON AUDITS DIVISION

Nancy L. Young, CPA, CISA, CFE
Audit Manager

NLY:bk

cc: Susan Browning, Deputy Director
Jack Ogami, Administrator, Information Processing Division
Darcy Johnson, Internal Auditor
Lindsay Ball, Director, Department of Administrative Services

Audit Findings and Recommendations Summary
Department of Revenue Statewide Audit
State Fiscal Year 2005

OTHER CONDITION

Control activities not functioning as intended

According to the Oregon Accounting manual (10.10.00.PO.103 (c)) control activities are the policies and procedures that help ensure management directives are carried out. Control activities reflect management's risk mitigation strategy in the form of directive, preventive, and detective controls.

During our testing we identified instances regarding return due dates, and taxes receivable calculations where the department's review processes were insufficient in detecting and preventing errors in data input and manual calculations. The instances identified required material and immaterial adjustments to the financial accounts being audited.

We recommend the department revise its review processes to ensure input and calculations are complete and accurate. At a minimum, those processes should include:

- Independent review by a knowledgeable staff,
- Specific checks and balances that better identify errors, and
- Evaluation of the reasonableness of amounts included in estimates.