



Auditing for a Better Oregon

February 13, 2006

Laurie Warner, Director
Employment Department
875 Union St. NE
Salem, Oregon 97311

Dear Ms. Warner:

The statewide single audit that included selected financial accounts and federal awards at the Employment Department (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.

| <u>SFMA Account</u> | <u>Description</u> | <u>Audit Amount</u> |
|--|--|---------------------|
| <u>GAAP Fund 4015 – Unemployment Compensation Fund</u> | | |
| 0077 | Cash In Bank | \$1,255,298,135 |
| 0240 | Investments – Designated | 194,908,000 |
| 0245 | Investments – Valuation Account | 5,569,872 |
| 0410 | Taxes Receivable – Current | 191,623,631 |
| 0411 | Allow for Uncollectible Taxes – Current | (81,419) |
| 0420 | Taxes Receivable – Noncurrent | 4,421,603 |
| 0937 | Allow for Uncollectible Taxes – Noncurrent | (1,546,953) |
| 0151 | Employment Tax | 768,733,687 |
| 6800 | Distributions to Individuals | 561,547,104 |

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

| <u>CFDA Number</u> | <u>Program Name</u> | <u>Audit Amount</u> |
|--------------------|------------------------|---------------------|
| 17.225 | Unemployment Insurance | \$631,617,134 |

Management Letter No. 471-2006-02-01

Based on our audit, we identified the following conditions in need of corrective action. These conditions are issues of lesser significance that we wanted to communicate to agency management. These conditions do not require a Corrective Action Plan. We will follow up on the department's progress in addressing these issues during the next fiscal year audit.

Issue: Timeliness of reporting financial transactions in SFMA

During our testing of the financial accounts (listed above), we noted that financial transactions occurring in July and August of recent years have not been recorded until the fiscal month of September in SFMA, Oregon's official accounting system. The Oregon Accounting Manual states, "Generally accepted accounting principles require that the passage of time between an accounting event and complete recording of the event be minimized." Although transactions are recorded more timely in OBIS and OATS, two of the department's main computer applications, those applications currently do not interface with SFMA and transaction data are manually summarized and entered into SFMA.

We recommend the department review its existing accounting processes to develop procedures that would facilitate more timely reporting of financial transactions in SFMA. In addition, the department may want to consider contacting the Department of Administrative Services to discuss the possibility of developing a direct interface between department accounting applications and SFMA to facilitate timelier reporting.

Issue: Accuracy of reporting in required Federal Reports

Through our testing, we noted errors in the ETA 227, *Overpayment and Detection Collection Activities* report. In performing our audit of the Unemployment Insurance program, the OMB Circular A-133 Compliance Supplement recommended that we review selected reports, including the ETA 227 report, which is submitted to the Federal Government. A series of errors occurred due to formula errors in the excel spreadsheets used to prepare the report. As a result of these errors, the amounts reported to the federal government were not correct.

We recommend the department periodically review the formulas and calculations used to generate the required federal reports to ensure accuracy and agreement to department accounting systems. Additionally, we recommend the department contact the appropriate federal agency to determine if revised/corrected reports should be submitted.

Should you have any questions, please contact Geoff Hill or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Kelly L. Olson, CPA
Audit Manager

KLO:bk

cc: Daniel Hall, Business Services Manager
Lorraine Odell, Internal Auditor
Glen Gephart, Financial Services Manager
Lindsay Ball, Director, Department of Administrative Service