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April 3, 2007

Susan Castillo, Superintendent of Public Instruction
Oregon Department of Education
255 Capitol NE
Salem, Oregon 97310-0203

Dear Ms. Castillo:

The statewide single audit that included selected financial accounts and subrecipient monitoring at the Department of Education (department) for the year ended June 30, 2006, 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>
General Fund (GAAP Fund 0001)		
6200	Intraagency General Fund/Other Fund Transfer	\$2,397,608,264
Educational Support Fund (GAAP Fund 1105)		
6725	Distributions to Non-Governments	\$ 131,713,860
1301	Transfers in from Other Funds	(405,966,268)
1303	Transfers in from General Fund	(1,991,641,996)
Nutritional Support Fund (GAAP Fund 1109)		
6200	Distributions to Local Governments	\$ 96,318,297
6725	Distributions to Non-Governments	27,312,923

Susan Castillo, Superintendent of Public Instruction
Oregon Department of Education
Page 2

Based on our audit, we did not identify any reportable conditions related to the accounts audited or the department's subrecipient monitoring. However, we identified conditions of lesser significance that we wanted to communicate to department management. Our findings and recommendations are presented in the enclosed Audit Findings and Recommendations Summary accompanying this letter. During the next fiscal year audit, we will follow up on the department's progress in addressing these conditions.

In performing our audit, we considered the department's internal control in order to plan our auditing procedures for the purpose of determining the fair presentation of the selected financial accounts listed on page 1 of this letter. During our audit, we became aware of matters that present an opportunity for the department to strengthen its information technology internal controls relating to security. Because of the sensitive nature of security, we issued a separate letter outlining our findings and recommendations to improve security. This confidential letter was prepared in accordance with ORS 192.501 (23), which allows exemption of such information from public disclosure.

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

Sincerely,
OREGON AUDITS DIVISION

V. Dale Bond, CPA, CISA, CFE
Audit Manager

cc: Susan MacGlashan, Assistant Superintendent, Office of Finance and Administration
Doug Kosty, Assistant Superintendent, Office of Assessment and Information Services
Lindsay Ball, Director, Department of Administrative Services

VDB:brk

Audit Findings and Recommendations Summary
Oregon Department of Education Statewide Audit
State Fiscal Year 2006

User Access Not Reviewed

Effective internal controls over electronic data include controls to restrict access only to those individuals that need to use the data for their assigned responsibilities. Once access is granted, it should be reviewed periodically to ensure that it continues to be appropriate.

During the 2004 fiscal year audit, we noted the department did not have a process to periodically review users' access to the State School Fund database. This database contains information the department uses to calculate the State School Fund distributions to districts. During the 2006 fiscal year audit, the department indicated it had not yet begun performing a periodic review. When users have unneeded access to the State School Fund database, there is an increased risk of inappropriate changes to school funding data. Erroneous or unauthorized activity could ultimately impact the amounts distributed to each district.

We recommend the department implement our 2004 recommendation by developing a process to periodically review access to the State School Fund database and ensure that access is granted only to users who need it for their assigned responsibilities.

State School Fund Calculation Lacks An Audit Trail

State policy requires agencies to retain supporting documentation for all transactions entered into the State Financial Management Application (SFMA), as well as those initially entered and processed in an agency subsystem and later transmitted into SFMA. This allows transactions to be traced to the source, through processing, and then to the financial report, thus providing an audit trail that offers evidence transactions are accurate and appropriate. Documentation is not limited to paper documents, but includes a variety of media and physical formats, including electronic media.

Each fiscal year, the department distributes the State School Fund (SSF) allocation to districts in a series of payments throughout the year. Each payment is calculated using data stored in the State School Fund database. Beginning each year, the distribution payments are mostly based on estimated data from the database. Throughout the year, the database is updated with actual data as they become available. For fiscal year 2006, the original data were overwritten when actuals were entered into the database. As a result, the department did not have a complete audit trail for the payments made to districts during the year.

After the end of the fiscal year, the department performs a final calculation to determine the SSF payments each district should have received that year and invoices or refunds the districts for the difference as appropriate. Although this final calculation mitigates the risk that districts receive incorrect annual SSF allotments, the transactions that occurred during the 2006 fiscal year were not supported.

We recommend department management begin retaining support for distributions made to districts in order to provide an adequate audit trail.

Subrecipient Monitoring – Single Audit Reports

The department was assigned to complete the review of single audit reports for 122 subrecipients who received federal funds from the State of Oregon. As the monitoring agency, the department is required to conduct subrecipient reviews in accordance with Office of Management and Budget (OMB) Circular A-133. Specific responsibilities and requirements for subrecipient monitoring are included in the Oregon Accounting Manual (OAM) and include meeting deadlines, resolving problems identified in the audits, maintaining adequate documentation, and communicating results of reviews with the subrecipients. In the prior fiscal year, we found that the department was not meeting the deadlines established, not resolving discrepancies identified, and not communicating completion of the review to the subrecipient.

During our review for fiscal year 2006, we found the department has worked to significantly improve its subrecipient monitoring over the prior year. Based on our testing, the only outstanding issue for the department is to continue to ensure subrecipient reports are reviewed within the timelines outlined in the OAM.