Office of the Secretary of State

Bill Bradbury
Secretary of State

Jean Straight
Deputy Secretary of State

Audits Division

Charles A. Hibner, CPA
Director

255 Capitol Street NE, Suite 500
Salem, OR 97310

(503) 986-2255
fax (503) 378-6767

February 26, 2008

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

Dear Ms. Warner:

We have completed the statewide single audit that included selected financial accounts at the Employment Department (department) for the year ended June 30, 2007.

This audit work was not a comprehensive audit of the department. Instead, the audit work performed allowed us, in part, to achieve the following objectives: (1) express an opinion on whether the financial statements contained in the State of Oregon's Comprehensive Annual Financial Report were fairly presented, in all material respects, in conformity with generally accepted accounting principles; (2) determine whether the state's internal controls provided reasonable assurance of proper accounting, financial reporting, and legal compliance of transactions; and (3) determine whether the state has complied with applicable legal requirements that may have a direct and material effect on the state's financial statements.

In planning and performing our audit of the selected financial accounts at the department as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the department's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements of the State of Oregon, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control. Accordingly, we do not express an opinion on the effectiveness of the department's internal control.

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

SFMA Account	Description	Audit Amount
GAAP Fund 4015 – Unemployment Compensation Fund		
0077	Cash in Bank	$1,832,834,475
0240	Investments	193,507,313

SFMA Account	Description	Audit Amount
0245	Investment Valuation	$ (788,722)
0410	Taxes Receivable – Current	154,037,042
0411	Allowance for Uncollectible Taxes – Current	(67,555)
0420	Taxes Receivable – Noncurrent	4,753,643
0937	Allowance for Uncollectible Taxes – Noncurrent	(1,283,541)
0151	Unemployment Tax	(622,771,503)
6800	Distribution to Individuals	529,453,851

Our consideration of internal control was for the limited purpose described in the preceding paragraphs and would not necessarily identify all deficiencies in internal control. As discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control:

Incorrect Financial Statement Disclosure Amounts

Information that may be required for disclosure in the notes to the state's financial statements is obtained through completion of year end disclosure forms. These disclosure forms and other requested information are critical to the preparation of the notes to the state's financial statements. Agency management is responsible for the accuracy and completeness of their agency accounting records and the information provided for disclosure purposes.

During fiscal year 2007, the department experienced turnover in several significant accounting positions. As a result, both the preparer and reviewer of the lease disclosures were new in their roles.

Upon review of the spreadsheet used to support the state's note disclosure for operating lease commitments submitted by the department, we found incorrect formulas and amounts. As a result, the disclosure was understated in total by $16,527,074.

We recommend department management perform a thorough review of all disclosures and related spreadsheets before they are submitted for inclusion in the notes to the state's financial statements.

In addition to the significant deficiency identified above, we identified another matter that warrants management's attention.

Security Deposit Controls

The department holds various security deposits in the form of bonds, cash deposits or bank agreements for various tax-reimbursing employers and employers determined to be a collection risk. As of June 30, 2007, the total of all security deposits held at the department was $227,174,879, with bonds making up the largest portion of the total at $213,586,246, bank agreements totaling $12,495,730, and cash deposits totaling $1,092,903. The department's policy requires that cash deposits be reconciled monthly to the state's accounting records and the amounts held as bonds or bank agreements be verified annually.

Based on our review of controls over the security deposit process and accounts at the department, we found tax accounting management had not implemented adequate controls over the security deposits received. We noted a lack of effective review of security deposits and related department accounts, a lack of reconciliation between the department's subsystem to the state's accounting system, and inadequate segregation of duties over the receiving and recording of cash deposits. Specifically, we found employers with insufficient security deposits on file with the department, and noted a difference of $79,241 between the department's subsidiary system and the state's accounting system. Additionally, we could not verify the validity of one bank that was recorded as holding a bank agreement for an employer.

We recommend that department management design and implement effective controls over the receiving and recording of security deposits to include the (1) effective review of department accounts with security deposits to ensure the deposit is adequate, (2) preparation of monthly reconciliations of the department's subsystem to the state's accounting system to avoid inaccurate reporting, and (3) segregation of conflicting duties.

The significant deficiency, along with your response, will be included in our Statewide Single Audit Report for the Fiscal Year Ended June 30, 2007. Including your response 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 the significant deficiency includes the information specified by the federal requirement, and only if the response is received in time to be included in the audit report. The following information is required for the 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.

Please respond by March 5, 2008. The other matter does not require a written response. We will follow up on the department's progress in addressing these issues during the next fiscal year audit.

This communication is intended solely for the information and use of management, others within the organization, and is not intended to be and should not be used by anyone other than the specified parties.

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

Sincerely,
OREGON AUDITS DIVISION

Kelly L. Olson, CPA
Audit Manager

KLO:brk
cc: Kate Coffey, Chief Financial Officer
Corry Chain, Accounting Services Manager
Margaret McDowell, Internal Auditor
Kris Kautz, Interim Director, Department of Administrative Services