

**Office of the Secretary of State**

Bill Bradbury  
Secretary of State

Jean Straight  
Deputy Secretary of State



**Audits Division**

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March 4, 2008

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

Dear Ms. Warner:

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

This audit work is not a comprehensive audit of your federal programs. Instead, the audit work performed allowed us, in part, to achieve the following objectives: (1) determine whether the state has complied with laws, regulations, contracts or grants that could have a direct and material effect on each major federal program and (2) determine whether the state has effective internal controls over compliance with the laws, regulations, contracts and grants applicable to federal programs.

In planning and performing our audit, we considered the department's internal control over compliance with requirements that could have a direct and material effect on the federal program(s) in order to determine our auditing procedures for the purpose of expressing our opinion on the department's compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the department's internal control over compliance.

We audited the following federal programs at the department to determine whether the department substantially complied with the federal requirements relevant to the federal programs. Our audit does not provide a legal determination of the department's compliance with those requirements.

<u>CFDA Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
17.225	Unemployment Compensation	\$576,263,237
93.575	Child Care Development Block Grant	\$554,563
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	\$9,479,252

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control. As discussed below, we identified an other matter that warrants management's attention.

#### Cost Allocation Process

The department allocates indirect costs to federal programs based on a federally approved cost allocation plan. The approved plan states that indirect costs will be allocated based on the direct payroll hours from the state's payroll system.

The payroll data used in the cost allocation process is obtained from the state's payroll system and is entered into a system at the department that filters and summarizes the data. The resulting information interfaces to the state's accounting system and is used to allocate indirect costs.

The summarized data generally agreed with the underlying payroll data. However, we did note several immaterial differences. Upon inquiry, department management was unable to identify the cause of the differences.

**We recommend** department management document its controls over the cost allocation process in order to fully support the accuracy of the data used in allocating indirect costs.

This matter does not require a written response. We will follow up on the department's progress in addressing this matter 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, Acting Director, Department of Administrative Services