Office of the Secretary of State

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February 25, 2009

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

Dear Ms. Warner:

We have completed audit work of selected financial accounts at the Employment Department (department) for the year ended June 30, 2008.

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.

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	$ 2,118,859,285
0410	Taxes Receivable – Current	148,570,595
0420	Taxes Receivable – Noncurrent	4,225,360
0151	Employment Tax	(624,415,932)
6800	Distribution to Individuals	651,178,668
GAAP Fund 1106 – Employment Services Fund		
0300	Federal Revenue	(130,144,141)

In planning and performing our audit of the selected financial accounts at the department as of and for the year ended June 30, 2008, 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.

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. 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 deficiencies to be significant deficiencies in internal control.

Timeliness of Cash Reconciliations

The Oregon Accounting Manual states that departments should regularly perform reconciliations of cash recorded in agency records to amounts reported on Treasury statements. Those reconciliations should be performed by persons not otherwise responsible for handling or recording cash and should be independently reviewed by management.

The department did not perform timely reconciliations of its cash accounts. We requested the department's cash reconciliations for two accounts and noted that the reconciliations from July 2007 to June 2008 were not performed until August 2008. Based on the year-end reconciliation, the department made an adjustment to reduce cash by $2.5 million in order to agree the accounting system balance to the balance per the year end reconciliation.

Reconciling bank statements to amounts recorded in agency accounting records is an essential internal control. Timely and effective reconciliations can help identify errors or other problems that may have occurred, and provide additional assurance that reported cash balances are accurate. In bypassing the control of performing regular reconciliations, the department was not in compliance with state policy and had less assurance that errors would be detected and corrected in a timely manner.

We recommend department management make cash reconciliations a priority and ensure reconciliations are performed timely.

Controls Over Year End Closing Activities Could Be Improved

The accuracy of the state's Comprehensive Annual Financial Report depends on the accuracy and completeness of agency year end closing activities. Department management is responsible for implementing controls that ensure fiscal year end closing procedures result in reporting department financial information in conformity with generally accepted accounting principles. These controls include adherence to accounting and reporting policies and procedures included in the Oregon Accounting Manual.

During our review of year end closing activities, we noted that the department did not have sufficient controls in place to ensure adjusting entries were appropriate and adequately supported. Specifically, we noted the following:

- The department made a year end adjustment to reduce employment taxes revenue. The department was not able to explain nor provide supporting documentation for the reduction to employment taxes revenue.

- The department accrued expenditures for benefit payments that had been distributed to individuals but not yet redeemed. These expenditures had previously been recorded as an expenditure when the benefit payment was distributed. As a result, the current year accrual and the reversal of the prior year accrual understated expenditures at June 30, 2008 by $6.7 million and were not in accordance with generally accepted accounting principles.

- The department inappropriately recorded an adjustment to taxes receivable, resulting in a misclassification between current and noncurrent taxes receivable of $1 million.

- The department made an adjustment to transfer expenditures from the employment services fund to the unemployment fund. Upon inquiry, it was determined these expenditures should not have been transferred to the unemployment fund, resulting in a $6.3 million overstatement of expenditures at June 30, 2008.

We recommend department management implement controls to ensure year end adjustments are appropriate and adequately supported.

The significant deficiencies, along with your responses, will be included in our Statewide Single Audit Report for the Fiscal Year Ended June 30, 2008. Including your responses satisfies the federal requirement that management prepare a Corrective Action Plan covering all reported audit findings. Satisfying the federal requirement in this manner, however, can be accomplished only if the responses to the significant deficiencies include the information specified by the federal requirement, and only if each response is received in time to be included in the audit report. The following information is required for each 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 6, 2009. We will follow up on the department's progress in addressing both issues during the next fiscal year audit.

This communication is intended solely for the information and use of management, others within the department, 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

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Audit Manager

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cc: George Dunford, Chief Financial Officer
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Scott Harra, Director, Department of Administrative Services