

**Office of the Secretary of State**

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Secretary of State

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**Audits Division**

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January 14, 2010

Elizabeth Harchenko, Director  
Department of Revenue  
955 Center St. NE  
Salem, OR 97301-2555

Dear Ms. Harchenko:

We have completed audit work of selected financial accounts at the Department of Revenue (department) for the year ended June 30, 2009.

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, 2009, 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 at the department and determined 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>General Fund (0001)</u>		
0111	Personal Income Taxes	\$(5,121,280,022)
0115	Corporate Excise and Income Taxes	(237,635,331)
0121	Cigarette Taxes	(38,960,585)
0410	Taxes Receivable – Current	229,434,802
0411	Allowance for Uncollectible Taxes – Current	(28,579,087)
0420	Taxes Receivable – Noncurrent	580,936,572
0937	Allowance for Uncollectible Taxes – Noncurrent	(70,209,320)
1215	Accounts Payable	(49,465,595)
1603	Deferred Revenue	(511,106,771)
<u>Health and Social Services Fund (1108)</u>		
0121	Cigarette Taxes	(171,492,639)
1819	Transfer Out to Military	40,267,145
<u>Government Wide Reporting Fund (8500)</u>		
0410	Taxes Receivable – Current	144,746,610
0420	Taxes Receivable – Noncurrent	(144,746,610)

Our consideration of internal control was for the limited purpose described above and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. 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. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Based on audit procedures performed, we did not identify any current year findings. In the prior fiscal year, we reported a material weakness to the department in a letter dated February 10, 2009. This finding can also be found in the Statewide Single Audit Report for the fiscal year ended June 30, 2008; see Secretary of State Audit Report number 2009-07, finding number 08-3. During fiscal year 2009, the department made progress in correcting this finding. This finding will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2009, with a status of partial corrective action taken.

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

We appreciate your staff's assistance and cooperation during the audit. Should you have any questions, please contact Michelle Rock or me at (503) 986-2255.

Sincerely,  
OREGON AUDITS DIVISION

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

VDB:MLR:jas

cc: Karen Gregory, Deputy Director  
Larry Hinton, ASD Administrator  
Ken Ross, Finance Section Manager  
Jason Robinson, Internal Auditor  
Scott Harra, Director, Department of Administrative Services