Office of the Secretary of State

Kate Brown
Secretary of State

Barry Pack
Deputy Secretary of State

Audits Division

Gary Blackmer
Director

255 Capitol St. NE, Suite 500
Salem, OR 97310

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

March 17, 2010

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

Dear Ms. Warner:

We have completed the statewide single audit that included a selected federal program at the Oregon Employment Department (department) for the year ended June 30, 2009.

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

CFDA Number	Program Name	Audit Amount
17.225 – Non ARRA	Unemployment Insurance Program	$1,786,113,583
17.225 – ARRA	Unemployment Insurance Program	$ 148,664,422

This audit work is not a comprehensive audit of your federal program. 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 the major federal program and (2) determine whether the state has effective internal controls over compliance with the laws, regulations, contracts and grants applicable to the federal program.

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 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.

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

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program 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.

Unemployment Insurance Program, CFDA 17.225
Cash Management - Controls Over Federal Draws Should Be Improved

The Office of Management and Budget Circular A-133 states the auditee shall maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with applicable laws and regulations. The department requests federal funds daily in accordance with the Cash Management Improvement Act for reimbursement of federal unemployment benefit expenditures.

We audited the Unemployment Insurance Program's federal revenue during our financial audit for the fiscal year ended June 30, 2009. We determined the department did not have adequate controls in place to ensure that federal cash draws were appropriately calculated and adequately supported. Please refer to the current year financial finding for additional detail [Management Letter No. 471-2010-02-01 dated February 24, 2010].

We recommend department management implement a review process to ensure that federal program cash draws are appropriate and adequately supported.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness.

Unemployment Insurance Program, CFDA 17.225
Improve Controls Over SEFA Reporting

The Oregon Department of Administrative Services manages the data collection and preparation of the State of Oregon's Schedule of Expenditures of Federal Awards (SEFA). Each state agency is responsible for reviewing their federal expenditure data to ensure the accuracy and completeness of the SEFA for their agency.

During our fiscal year 2009 audit, we found that the department did not have adequate procedures in place to identify and correct coding errors, which caused the SEFA and related note disclosure to be misstated for the Unemployment Insurance program. We found that the department understated the SEFA program expenditures by $157 million and misclassified $418 million of federal expenditures as state expenditures in the note disclosure.

The department's SEFA for the Unemployment Insurance Program was understated by $157 million at June 30, 2009, due to errors. During the 2009 financial audit, an audit adjustment for $106 million was made to increase the department's unemployment benefit expenditures due to an error in the accounting records. This accounting error also caused the department's unemployment benefit expenditures to be understated on the SEFA. Please refer to the current year financial finding for additional detail [Management Letter No. 471-2010-02-01 dated February 24, 2010]. The department's SEFA was further understated by $51 million, of which $47 million was American Reinvestment and Recovery Act (ARRA) expenditures. Although these expenditures were correctly recorded in the state's accounting system as unemployment benefits and ARRA expenditures, the department did not correctly code these transactions to the SEFA.

Additionally, in compliance with federal requirements, the department reports both state and federal expenditures for the Unemployment Insurance Program in the SEFA and separately discloses the portion of total program expenditures that are federal and state expenditures. We reviewed the note disclosure and accounting records and discovered that the department misclassified $418 million of federal expenditures as state expenditures in the note disclosure. The transactions were correctly identified as federal expenditures in the accounting records.

We recommend department management implement a review process to ensure the accuracy of the department's SEFA, including the note disclosure.

The significant deficiency and material weakness, along with your responses, will be included in our Statewide Single Audit Report for the Fiscal Year Ended June 30, 2009. 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 only be accomplished if the response to the significant deficiency and material weakness includes the information specified by the federal requirement, and only if the responses are 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 an 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 23, 2010.

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.

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

Sincerely,
OREGON AUDITS DIVISION

Kelly L. Olson, CPA
Audit Manager

KLO:jas
cc: George Dunford, Chief Financial Officer
Corry Chain, Assistant Chief Financial Officer
John McGinn, Accounting Manager
Robert McQuillan, Internal Auditor
Tom Byerly, Assistant Director, Unemployment Insurance
Scott Harra, Director, Department of Administrative Services