

Office of the Secretary of State

Kate Brown
Secretary of State

Barry Pack
Deputy Secretary of State



Audits Division

Gary Blackmer
Director

255 Capitol Street NE, Suite 500
Salem, OR 97310

(503) 986-2255

fax (503) 378-6767

February 1, 2011

Kris Kautz, Acting Director
Department of Administrative Services
155 Cottage St. NE, U20
Salem, Oregon 97301-3966

Dear Ms. Kautz:

We have completed audit work of a federal program at Department of Administrative Services (department) for the year ended June 30, 2010.

This audit work was not a comprehensive audit of your federal program. We performed this audit work as part of our annual statewide single audit. The audit work performed allowed us, in part, to achieve the following objectives: (1) determine whether the department has complied with laws, regulations, contracts or grants that could have a direct and material effect on the selected federal program and (2) determine whether the department has effective internal controls over compliance with the laws, regulations, contract and grants applicable to the selected federal program. 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.

CFDA Number	Program Name	Audit Amount
10.665 & 10.666	Schools & Roads Program	\$121,466,066

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 major federal program to determine the auditing procedures for the purpose of expressing our opinion on the department's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of the federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance

with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the paragraph above and was not designed to identify all deficiencies in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified one deficiency in internal control over compliance that we consider to be a significant deficiency. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Significant Deficiency

Improve Controls Over SEFA Reporting

The State Controller's Division of 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 audit, we found that the department overstated their SEFA program expenditures by \$16.9 million. The overstatement occurred due to a coding error in the accounting system, which resulted in the department distributing program funds to the wrong county. The county who erroneously received the funds notified the department and returned the funds. The department redistributed the funds to the correct county. However, the coding of the redistribution in the accounting system caused the department's accounting records to show this payment to both counties. The error was not detected or corrected by the department and resulted in the federal program's expenditures being overstated in the SEFA.

We recommend department management ensure their federal expenditure data is complete and accurate for SEFA reporting.

The significant deficiency, along with your response, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2010. Including your response 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 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.

Kris Kautz, Acting Director
Department of Administrative Services
Page 3

- 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 February 4, 2011.

This communication is intended solely for the information and use of management, others within the organization, federal awarding agencies, and pass-through entities 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:RV:nmj

cc: Bret West, DAS Operations Division Administrator
Jim Russell, Chief Financial Officer
Pam Valencia, Chief Audit Executive