

**Office of the Secretary of State**

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March 11, 2011

Susan Castillo, Superintendent of Public Instruction  
Oregon Department of Education  
255 Capitol Street NE, Suite 200  
Salem, Oregon 97310-0203

Dear Ms. Castillo:

We have completed audit work of selected financial accounts at the Department of Education (department) for the year ended June 30, 2010, and have issued our letter thereon dated January 5, 2011. This audit work was not a comprehensive audit of the department. This work was performed for the purpose of forming our opinions on the financial statements that collectively comprise the State of Oregon's basic financial statements. The schedule of federal awards accompanying the basic financial statements is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information, as it relates to your department, has been subjected to auditing procedures applied in the audit of the basic financial statements, in relation to the basic financial statements taken as a whole.

In planning and performing our audit of the selected financial accounts at the department as of and for the year ended June 30, 2010, 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.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or

material weaknesses. As discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency.

### **Financial Reporting Controls Need Improvement**

Per the Oregon Accounting Manual, policy 30.10.00.PR, agencies are responsible for reviewing their federal expenditure data to ensure accuracy and completeness of the Schedule of Expenditures of Federal Awards (SEFA). The department made appropriate year-end accruals in the form of a post-closing adjustment to ensure that the federal awards received and expended during fiscal year 2010 were reported in the proper period for the state's basic financial statements. Due to the timing of the post-closing adjustment, however, the expenditure transactions were not recorded in the state's accounting system, which was used to prepare the SEFA. In addition, department staff did not identify the missing transactions during the SEFA preparation process. As a result, the expenditures for Title I Grants to Local Education Agencies, Recovery Act, CFDA 84.389, were understated by approximately \$5.8 million on the 2010 SEFA and required an audit adjustment to correctly report the expenditures.

**We recommend** department management improve review procedures and controls over its SEFA preparation process to ensure complete and accurate data is used to prepare the SEFA.

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 [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 21, 2011.

This communication is intended solely for the information and use of management, the Board of Education, 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.

Susan Castillo, Superintendent  
Oregon Department of Education  
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We appreciate your staff's assistance and cooperation during this audit. Should you have any questions, please contact Michelle Searfus or me at (503) 986-2255.

Sincerely,  
OREGON AUDITS DIVISION

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

cc: Ed Dennis, Deputy Superintendent  
Susan MacGlashan, Assistant Superintendent, Office of Finance and Administration  
Tomas Flores, Financial Services Director  
Brenda Frank, Chair, State Board of Education  
Kris Kautz, Acting Director, Department of Administrative Services