

Office of the Secretary of State

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Audits Division

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February 24, 2012

Laurie A. Warner, Director
Oregon Employment Department
875 Union Street NE
Salem, OR 97311

Dear Ms. Warner:

We have completed audit work of selected financial accounts at the Oregon Employment Department (department) for the year ended June 30, 2011.

This audit work was not a comprehensive audit of the department. We performed this audit work as part of our annual statewide financial audit. The objective of the statewide audit was to 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.

In planning and performing our audit of the selected financial accounts at the department as of and for the year ended June 30, 2011, 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.

SFMA Account	Description	Audit Amount
<u>GAAP Fund 4015 – Unemployment Compensation Fund</u>		
0075	Cash on Deposit – Suspense Acct at Treasury	\$660,662
0077	Cash – in Bank	\$950,569,322
0410	Taxes Receivable – Current	\$261,292,235
6800	Distributions to Individuals	\$2,291,429,882
0151	Employment Tax	\$1,005,811,207
0300	Federal Revenue	\$ 1,351,637,671

GAAP Fund 1106 – Employment Services

0300 Federal Revenue \$166,796,988

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Other Matter

We did identify, however, the following other matter that is an opportunity to strengthen financial reporting but is not considered to be a significant deficiency or a material weakness. This other matter does not require a written response from management.

Continue to Strengthen Year-End Financial Reporting

During our testing of year-end transactions, we noted the department made improvements in methodologies and supporting documentation. We also noted the following opportunities to strengthen year-end financial reporting:

- Update ratios used in preparing benefit and federal revenue accruals to report benefits paid and federal revenue drawn after June 30 but related to the prior year;
- Verify bad debt expense is appropriately recognized for all uncollectible benefit overpayments;
- Include all transactions when verifying federal revenues agree to federal expenditures; and
- Research accounting standards for year-end entry made related to collectability of benefit overpayments owed to the federal government.

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

Laurie A. Warner, Director
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We appreciate your staff's assistance and cooperation during this audit. Should you have any questions, please contact Melaney Scott or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Kelly L. Olson, CPA
Audit Manager

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cc: Bill Fink, Deputy Director
George Dunford, Chief Administrative Officer
Corry Chain, Accounting Manager
Bob McQuillan, Internal Auditor
Michael J. Jordan, Director, Department of Administrative Services