

Office of the Secretary of State

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March 8, 2013

Michael J. Jordan, Director
Department of Administrative Services
155 Cottage Street NE
Salem, Oregon 97301

Dear Mr. Jordan:

We have completed our review of the Schedule of Expenditures of Federal Awards (SEFA) for the year ended June 30, 2012. The SEFA was prepared by the Department of Administrative Services' Statewide Accounting and Reporting Services (SARS) unit.

We performed this review as part of our annual statewide single audit. The SEFA is a financial schedule prepared "in-relation-to" the State of Oregon's Comprehensive Annual Financial Report and is required by the Office of Management and Budget Circular A-133. The audit work performed allowed us to determine whether the department has effective internal controls over compliance and whether it complied with OMB A-133 requirements regarding preparation of the SEFA.

We considered the department's internal control over the preparation of the SEFA to determine additional procedures for the purpose of expressing our opinion on whether the department's SEFA is presented fairly in all material respects, in relation to the State of Oregon's Comprehensive Annual Financial Report taken as a whole, in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over the preparation of the SEFA. Accordingly, we do not express an opinion on the effectiveness of the department's internal control over preparation of the SEFA.

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 or errors on a timely basis. A material weakness in internal control is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that material misstatements or errors in the SEFA 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 that might be deficiencies, significant deficiencies, or material weaknesses. We consider the

deficiency in internal control over the preparation of the SEFA described below to be a material weakness.

Material Weakness

Internal Controls over Preparation of the Schedule of Expenditures of Federal Awards Need Improvement

The Department of Administrative Services' Statewide Accounting and Reporting Services (SARS) unit is responsible for preparing the Schedule of Expenditures of Federal Awards (SEFA) for the State of Oregon. Each state agency receiving federal assistance is required to annually report the details of that assistance to SARS, who then compiles the information and prepares a single schedule for the State. The SEFA is a required part of the State's annual Single Audit reporting package.

We noted SARS has established and documented SEFA preparation procedures, including internal controls, to ensure the SEFA is accurate and complete; however, we found that these procedures were not followed. When reviewing the original fiscal year 2012 draft SEFA, we found it did not include data for a new state agency, resulting in \$2.5 billion in unreported expenditures. We also noted errors in a subsequent draft that resulted in overstating expenditures by \$5.3 million. In addition, SARS' reporting system did not accurately identify and assign federal program titles, resulting in incorrect titles for 31 programs in the draft SEFA.

An incomplete or inaccurate SEFA may cause errors in major program determinations, misstatements in the State's Single Audit report, and/or delay the issuance of the Single Audit report.

The errors identified were corrected by SARS prior to submission of the SEFA to the federal government.

We recommend SARS management ensure established procedures are followed to ensure the SEFA is complete and accurate.

The material weakness, along with your response, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2012. 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 material weakness 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.
- 2) The corrective action planned.
- 3) The anticipated completion date.

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4) The name(s) of the contact person(s) responsible for corrective action.

Please respond by March 13, 2013.

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 Michelle Searfus or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Julianne Kennedy, CPA
Audit Manager

JK:MNS:nmj

cc: George Naughton, CFO
Kathryn Ross, SARS Manager