

Office of the Secretary of State

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Secretary of State

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Audits Division

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January 28, 2013

James Bucholz, Director
Department of Revenue
955 Center Street NE
Salem, Oregon 97301-2555

Dear Mr. Bucholz:

We have completed audit work of selected financial accounts at the Department of Revenue (department) for the year ended June 30, 2012.

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, 2012, 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.

<u>SFMA Account</u>	<u>Description</u>	<u>Audit Amount</u>
<u>GAAP Fund 0001 - General Fund</u>		
0111	Personal Income Taxes	\$ 5,874,296,309
0115	Corporate Excise and Income Taxes	425,549,547
0410	Taxes Receivable - Current	331,833,404
0411	Allowance for Uncollectible Taxes - Current	39,944,695

0420	Taxes Receivable – Noncurrent	703,310,861
0937	Allowance for Uncollectible Taxes – Noncurrent	84,947,365
3037	Nonspendable Fund Balance – Other Noncurrent Receivables	618,363,496

GAAP Fund 0054 – GASB 54 General Fund

0111	Personal Income Taxes	\$ 1,753,649
0115	Corporate Excise and Income Taxes	16,252,325
0410	Taxes Receivable – Current	5,493,265
0411	Allowance for Uncollectible Taxes – Current	18,306
0420	Taxes Receivable – Noncurrent	20,826,952
0937	Allowance for Uncollectible Taxes – Noncurrent	5,990,464
3037	Nonspendable Fund Balance – Other Noncurrent Receivables	14,836,487

GAAP Fund 8500 – Government-Wide Reporting Fund

0410	Taxes Receivable – Current	\$ 184,048,723
0420	Taxes Receivable – Noncurrent	184,048,723

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.

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 over financial reporting that we consider to be material weaknesses, as defined above.

Prior Year Findings

In the prior fiscal year, we reported material weaknesses related to unrecorded financial transactions, cash reconciliations not performed and the need to strengthen knowledge, skills, and abilities in a letter dated January 24, 2012. These findings can also be found in the Statewide Single Audit Report for the fiscal year ended June 30, 2011; see Secretary of State audit report number 2012-08, finding numbers 11-05, 11-06, and 11-07. During fiscal year 2012, the department made progress toward correcting the findings. Finding 11-05 will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2012, with a status of corrective action taken, and findings 11-06 and 11-07 will be reported as partial corrective action taken.

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.

James Bucholz, Director
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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

VDB:MNS:nmj

cc: Kris Kautz, Deputy Director
Larry Warren, Acting Administrative Services Division Administrator
David Zerbe, Budget and Finance Section Manager
Jason Robinson, Internal Auditor
Tracy Ringering, Internal Auditor
Michael J. Jordan, Director, Department of Administrative Services