

Office of the Secretary of State

Kate Brown
Secretary of State

Brian Shipley
Deputy Secretary of State



Audits Division

Gary Blackmer
Director

255 Capitol St. NE, Suite 500
Salem, OR 97310

(503) 986-2255
fax (503) 378-6767

January 16, 2013

Rob Saxton, Deputy Superintendent
Oregon Department of Education
255 Capitol Street NE, Suite 200
Salem, Oregon 97310

Dear Mr. Saxton,

We have completed audit work of selected financial accounts at the Oregon Department of Education (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 is to express an opinion on whether the financial statements contained in the State of Oregon's Comprehensive Annual Financial Report are 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 0054 – GASB 54 General Fund</u> | | |
| 6600 | Distribution to Local School Districts | \$ 2,701,484,329 |

GAAP Fund 1105 – Educational Support Fund

| | | |
|------|--|----------------|
| 0300 | Federal Revenue | \$ 404,518,142 |
| 6600 | Distribution to Local School Districts | 404,003,295 |

GAAP Fund 1109 – Nutritional Support Fund

| | | |
|------|--|----------------|
| 6600 | Distribution to Local School Districts | \$ 139,461,885 |
|------|--|----------------|

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.

Other Matter

We identified the following other matter that is an opportunity to strengthen internal controls but is not considered to be a significant deficiency or a material weakness. This other matter does not require a written response from management.

Improve Accrual Process

While reviewing the department's expenditure and federal revenue accrual process, we identified opportunities for improvement. After year-end close for expenditures and federal revenues, the department prepares a post-closing adjustment based on actual expenditures. To determine the adjustment amount, the department nets the current year accrual with the prior year accrual. While this method does not misstate the expenditure and federal revenue accounts, it does result in a misstatement of the related payable and receivable accounts; both of which were understated by \$15.7 million for fiscal year 2012.

Additionally, we noted for fiscal year 2012 the department has a good process in place for identifying and recording federal revenue accruals for its grants. However, an entry made in fiscal year 2011 and carried over to 2012 resulted in the understatement of some grants' revenue and receivable accruals. As a result, while the revenue and receivable balances were correct for financial reporting purposes, at the grant level the accruals did not always reflect actual receivables.

We recommend the department revise its accrual process to ensure all accounts are properly reported. We also recommend the department correct the effects of the prior year transactions in order to ensure that year-end balancing accruals reflect actual receivables at the grant level.

Rob Saxton, Deputy Superintendent
Oregon Department of Education
Page 3

This communication is intended solely for the information and use of management, others within the organization, and the Oregon State Board of Education 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

Kelly L. Olson, CPA
Audit Manager

KLO:MNS:nmj

cc: Susan MacGlashan, Assistant Superintendent, Office of Finance and Administration
Tomas Flores, Financial Services Director
Jim Scott, Internal Auditor
Artemio Paz Jr., Chair, Oregon State Board of Education
Michael J. Jordan, Director, Department of Administrative Services