

Office of the Secretary of State

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January 28, 2016

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

Dear Mr. Bucholz:

We have completed audit work of selected financial accounts at your department for the year ended June 30, 2015. This audit work was not a comprehensive financial audit of the department, but was performed as part of our annual audit of the State of Oregon's financial statements. We audited accounts that we determined to be material to the State of Oregon's financial statements.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements of the State of Oregon as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, we considered the department's internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances 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 a combination of deficiencies, in internal control, 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

Significant Deficiencies

Perform Cash Reconciliations on a Regular and Timely Basis

During fiscal year 2015, the department received, processed, and deposited over \$8 billion in revenues from various tax programs. To facilitate efficient accounting, the department set up specific cash accounts for these tax programs. Much of the cash received is processed through the Revenue Suspense Account at the Oregon State Treasury before being transferred to the General Fund or other funds, as appropriate. State policy recommends departments reconcile cash accounts regularly. Cash reconciliations are an important internal control to provide assurance that actual assets agree to recorded amounts.

The department's intended process is to reconcile cash accounts in its subsidiary accounting systems, on a monthly basis, to related accounts at the Oregon State Treasury and in the state accounting system. The department considers reconciliations timely if they are completed by the fifth day after the end of the following month (e.g., May's reconciliation is timely if completed by July 5th). All fiscal year 2015 monthly reconciliations of the department's subsidiary accounting systems to the Revenue Suspense Account at the Oregon State Treasury were completed by July 2015; however, 11 of the 12 were not completed timely. The timing ranged from 10 days to 7 months late. Additionally, 5 of 12 monthly reconciliations of the department's subsidiary systems to the state accounting system were not completed timely. These reconciliations ranged from 10 days to over 2 months late. Department management indicated staffing shortages and a need to redirect resources to the new tax revenue system contributed to the reconciliations not being completed timely. By not consistently performing reconciliations timely, there is an increased risk that errors will not be promptly detected and corrected.

We recommend department management ensure cash accounts in its subsidiary accounting systems are consistently and timely reconciled to the Oregon State Treasury accounts and the state accounting system.

Strengthen Controls to Ensure Supporting Documentation for Tax Revenue Transactions is Retained

Agency management is responsible for maintaining a system of internal controls designed to provide reasonable assurance of effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. A system of internal controls includes retaining documentation that supports transactions and having it readily available for examination. Additionally, state archiving requirements specify transaction input documentation should be retained for 4 years.

The department did not retain complete supporting documentation for fiscal year 2015 state accounting system tax revenue transactions. Of 106 transactions tested, 31 totaling over \$2 billion did not have documentation to support that the amounts were accurate and properly classified. Department staff overwrote electronic supporting documentation for the 31 transactions when they prepared subsequent transaction entries and did not retain copies of the overwritten support. Although we were able to verify through other audit procedures that these transactions were entered into the state accounting system accurately and were properly classified, it is important to ensure controls are properly performed and documentation retained to support the effectiveness of controls and accuracy of transactions.

We recommend department management strengthen controls to ensure complete supporting documentation for all financial transactions is appropriately retained.

Prior Year Finding

In the prior fiscal year, we reported a significant deficiency related to the department's cash reconciliations to the Oregon State Treasury Revenue Suspense Account not being performed on a regular and timely basis in a letter dated January 21, 2015. This finding can also be found in the Statewide Single Audit Report for the fiscal year ended June 30, 2014; see Secretary of State audit report number 2015-05, finding number 2014-005. During fiscal year 2015, the department partially corrected the finding by completing the cash reconciliations to the Oregon State Treasury Revenue Suspense Account as of July 2015. This finding will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2015, with a status of partial corrective action taken.

The above significant deficiencies, along with your response for each finding, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2015. Please prepare a response to each finding and include the following information as part of your corrective action plan:

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

Please respond by February 9, 2016.

The purpose of this letter is solely to describe the scope of our testing of internal control and the result of that testing, and not to provide an opinion on the effectiveness of the department's internal control. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control. Accordingly, this letter is not suitable for any other purpose.

We appreciate your staff's assistance and cooperation during this audit. Should you have any questions, please contact Diane Farris or Dale Bond at (503) 986-2255.

Sincerely,

Office of the Secretary of State, Audits Division

cc: Kristine Kautz, Deputy Director
Shawn Waite, Budget and Finance Manager
Steve Bergmann, Accounting Manager
George Naughton, Interim Director, Department of Administrative Services