



**Kip Memmott**  
Division Director

November 26, 2024

Andrew Stolfi, Director  
Department of Consumer Business Services  
350 Winter Street NE  
Salem, Oregon 97309

Dear Andrew Stolfi:

We have completed audit work of selected financial accounts at your department for the year ended June 30, 2024. 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, 2024, 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. Given these limitations, during our audit we did not identify any deficiencies in internal control we consider to be material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency.

255 Capitol St NE, Ste 180  
Salem, Oregon 97310

**LaVonne Griffin-Valade**  
Oregon Secretary of State

**Cheryl Myers**  
Deputy Secretary & Tribal Liaison

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## Significant Deficiency

### Strengthen review procedures

Criteria: Oregon Accounting Manual (OAM) Procedure 10.10.00.101; OAM Policy 15.35.00.101

The state's accounting manual requires management to establish, maintain, and improve agency internal controls to ensure that transactions are accurate and properly recorded in the state's accounting system.

During our audit we identified three accounts that were overstated. The Department of Consumer and Business Services (DCBS) review procedures were insufficient to identify the errors. Staff reviewing the transactions did not have an adequate understanding of the programs to be able to perform a detailed review and identify errors. Without improved detailed review and understanding of the programs and accounts there is potential for material reporting errors.

During testing in fiscal year 2024, we identified the following:

- Healthcare Provider Taxes was overstated by \$32.6 million. DCBS recorded a correcting entry without evaluating the impact on the year-end account balance.
- Inflows and outflows of Performance Deposits were overstated by \$45.1 million. At year end, DCBS records the monthly activity in the state's accounting system. DCBS review did not identify a formula error that led to one month being recorded incorrectly and significantly higher than expected.

**We recommend** department management improve the accounting department's program understanding and strengthen review procedures to ensure transactions are recorded correctly in the accounting records.

The above significant deficiency, along with your response for the finding, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2024. Please prepare a response to the 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 provide a response to Amy John, Audit Manager, by December 4, 2024 and provide Rob Hamilton, State Controller, a copy of your Corrective Action Plan.

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 Amy John, Audit Manager or Synthea Russell, Senior Auditor, at [amy.john@sos.oregon.gov](mailto:amy.john@sos.oregon.gov) or [synthea.russell@sos.oregon.gov](mailto:synthea.russell@sos.oregon.gov).

Sincerely,

*Office of the Secretary of State, Audits Division*

cc: Sean O'Day, Deputy Director  
Blake Johnson, Business Operations Administrator  
Lane Foulger, Chief Financial Officer  
Thomas Poon, Accounting Manager  
Michael Campbell, Internal Auditor  
Berri Leslie, Director, Department of Administrative Services  
Robert Hamilton, State Controller, Department of Administrative Services