



Steve Bergmann
Division Director

December 22, 2025

David Gerstenfeld, Director
Department of Revenue
955 Center Street NE
Salem, OR 97301-2555

Dear David Gerstenfeld:

We have completed audit work of selected financial accounts at the Department of Revenue (department) for the year ended June 30, 2025. 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, 2025, in accordance with the 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 opinions 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 a 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. We identified a deficiency in internal control that we consider to be a material weakness.

255 Capitol St NE, Ste 180
Salem, Oregon 97310

Material Weakness

Establish a procedure to ensure that all kicker amounts are captured.

Criteria: The Oregon Accounting Manual requires agencies to have controls in place to ensure the proper recognition of liabilities and revenues. (OAM 10.30.00.PO.101; 15.35.00.101; 15.40.00.101)

Condition: The Oregon kicker is a tax refund mechanism that returns surplus state revenue to taxpayers when actual revenues received exceed projections by more than 2%. This surplus is estimated each year by the Office of Economic Analysis. At the end of a biennium, if the surplus is more than 2 percent, the revenue surplus is refunded to taxpayers via a tax credit.

For accounting purposes, the kicker refund liability has two parts: known kickers outstanding for prior bienniums and forecasted kicker for current biennium (2023-2025). At the end of fiscal year 2024, the Department of Administrative Services Statewide Accounting and Reporting Services (SARS) communicated that SARS would obtain and record, if probable, the kicker estimate associated with the fiscal year from the Office of Economic Analysis for the current biennium. However, the Department of Revenue (department) was still responsible for estimating and recording a liability for prior biennium kickers still owed to taxpayers that may be eligible but have not filed a tax return.

Cause: The department misunderstood who was responsible for recording the outstanding liability for prior biennium's kickers. The department assumed SARS was recording all kicker amounts. However, SARS only recorded the estimate for the current 2023-2025 biennium.

Effect: The estimated payable still owed related to kickers for the 2017 to 2023 tax years was not recorded causing a \$183.5 million understatement to accounts payable and an overstatement to personal income tax.

Recommendation: We recommend department management establish a procedure to ensure that the prior years kicker amounts get recorded at fiscal year-end.

The above material weakness, along with your response for the finding, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2025. 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 Kelly Olson by Monday, January 5, 2025, 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 Kelly Olson, Audit Manager or Michelle Rock, Principal Auditor at kelly.l.olson@sos.oregon.gov or michelle.l.rock@sos.oregon.gov.

Sincerely,

Office of the Secretary of State, Audits Division

cc: Jason Barbee, Deputy Director
Stefan Hamlin, Chief Financial Officer
Tomas Flores, Deputy Chief Financial Officer
Marie Trucco, Chief Audit Executive
Betsy Imholt, Director, Department of Administrative Services
Robert Hamilton, State Controller, Department of Administrative Services