Office of the Secretary of State

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Audits Division

Kip R. Memmott, MA, CGAP, CRMA
Director

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

503-986-2255

January 19, 2021

David Gerstenfeld, Acting Director
Oregon Employment Department
875 Union Street NE
Salem, OR 97311

Dear Mr. Gerstenfeld:

We have completed audit work of selected financial accounts at your department for the year ended June 30, 2020. 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, 2020, 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

Implement controls to ensure benefit payments do not exceed maximum weekly benefit amounts

Department management is responsible for establishing, maintaining, and improving internal controls that are adequate to provide reasonable assurance that assets are safeguarded.

Each year the department updates the minimum and maximum weekly benefit amounts that can be paid to claimants. To ensure that claimants are not paid more than the maximum weekly benefit amount, the department runs and reviews a weekly system generated report that identifies any payments that exceeded the maximum weekly benefit amount.

At the beginning of the fiscal year, the department discontinued running this report because the report can produce false positives when considering items such as child support or retirement pay. Initially, the determination to discontinue the report was made after several weeks where no benefit overpayments were identified. When we inquired with the department whether an alternate control had been established to identify potential overpayments, they stated no alternate control had been implemented. Without established controls, there is a risk that the department is overpaying weekly benefits without a valid reason.

We recommend the department run and review the system generated report or develop alternate controls to ensure benefit payments do not exceed the maximum weekly benefit amount.

Strengthen reconciliation controls

The department is responsible for tracking and reconciling the daily amount of employer unemployment tax revenue transferred in from the Department of Revenue (DOR) to the amount reported in the department's employer tax system. The department compares a daily transfer report from DOR to a report generated from the department's system. The department's procedures include retaining these reports to support the reconciliation and, if applicable, investigating discrepancies greater than $1,000 to identify the cause.

We selected a sample of 25 days during the fiscal year to determine whether the department conducted the reconciliations, maintained the reports that support the reconciliations, and investigated all discrepancies over $1,000. We identified one day where the department did not retain the report from their tax system to support the amount in the reconciliation. According to the department, a new staff member was unaware the reports are overwritten the subsequent day so must be saved to an alternate location. Additionally, we identified one day where a discrepancy greater than $1,000 was not investigated by the department as to the cause. The department did send an initial request for information to DOR, however due to staffing constraints follow-up was not completed until after we inquired about the discrepancy.

Without reconciliation controls in place there is a risk that the department may not maintain adequate supporting documentation or identify and timely address errors in tax receipts.

We recommend the department maintain documentation to support amounts used in the reconciliation and investigate identified differences exceeding the threshold in a timely manner.

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, 2020. 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 email us your response to by February 1, 2021, and provide Rob Hamilton, Statewide Accounting and Reporting Services (SARS) Manager, 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 Shelly Cardenas, Principal Auditor at (503) 986-2255.

Sincerely,

Office of the Secretary of State, Audits Division

cc: Jeannine Beatrice, Deputy Director
Michael Smith, Chief Financial Officer
Gina De Lira-Brown, Chief Audit Executive
Lindsi Leahy, Unemployment Insurance Division Director
Katy Coba, Director, Department of Administrative Services
Robert Hamilton, SARS Manager, Department of Administrative Services