
Secretary of State

State of Oregon
FEDERAL COMPLIANCE REPORT
AND
INTERNAL CONTROL REPORT
For the Year Ending June 30, 1996



Audits Division

Secretary of State

State of Oregon
FEDERAL COMPLIANCE REPORT
AND
INTERNAL CONTROL REPORT
For the Year Ending June 30, 1996



Audits Division

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Secretary of State

Audits Division

Auditing for a Better Oregon

The Honorable John A. Kitzhaber
Governor of Oregon
State Capitol
Salem, Oregon 97310

We have conducted a statewide audit in accordance with the Single Audit Act of 1984, *Government Auditing Standards*, and Office of Management and Budget Circular A-128. The statewide audit has four main components: an audit of the general-purpose financial statements, an audit to determine compliance with laws and regulations, a review of the internal controls used in administering state and federal funds, and a Schedule of Federal Financial Assistance.

The statewide audit produces four reports required by the Single Audit Act. These reports are required for states to continue receiving federal financial assistance. We issued a separate report dated December 23, 1996, except for Note 18.C., as to which the date is January 17, 1997, on the state of Oregon's general-purpose financial statements. That report is included in the state of Oregon's *Comprehensive Annual Financial Report* for the year ended June 30, 1996.

This report contains the other three reports required by the Single Audit Act, including the:

- *Report on Supplementary Schedule of Federal Financial Assistance:* This is our opinion on the schedule, which is supplemental to the general-purpose financial statements. The schedule, which is also included, summarizes federal expenditures made by the state of Oregon for the year ended June 30, 1996.
- *Report on Compliance:* This is our report on the state of Oregon's compliance with laws and regulations, including those related to administering federal programs. A schedule describing identified instances of noncompliance and questioned costs accompanies this report.
- *Report on Internal Control:* This is our report on the study and evaluation of internal control established and maintained by management of the state of Oregon. A schedule describing conditions affecting internal control accompanies this report.

Government Auditing Standards require us to disclose the status of material uncorrected prior findings and recommendations. Material uncorrected prior audit findings have been included in this report.

The Single Audit Act and Office of Management and Budget Circular A-128 require management to provide comments on the findings and recommendations in the report including a plan of corrective action. Responses to the findings and recommendations of the report were provided by management of the agencies to which the comments refer.

OREGON AUDITS DIVISION

John N. Lattimer
State Auditor



The Honorable John A. Kitzhaber
Governor of Oregon
State Capitol
Salem, Oregon 97310

**INDEPENDENT AUDITOR'S
REPORT ON SUPPLEMENTARY SCHEDULE OF
FEDERAL FINANCIAL ASSISTANCE**

We have audited the general-purpose financial statements of the state of Oregon as of and for the year ended June 30, 1996, and have issued our report thereon dated December 23, 1996, except for Note 18.C., as to which the date is January 17, 1997. These general-purpose financial statements are the responsibility of the state of Oregon's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the general-purpose financial statements of the state of Oregon taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the general-purpose financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly

presented in all material respects in relation to the general-purpose financial statements taken as a whole.

OREGON AUDITS DIVISION

Sharron E. Walker, CPA, CFE
Deputy State Auditor

December 23, 1996, except for Note 18.C.,
as to which date is January 17, 1997

State of Oregon
 Schedule of Federal Financial Assistance
 July 1, 1995, to June 30, 1996

CFDA

Program No. Federal Funding Agencies and Program Titles Expenditures

Department of Agriculture

10.001	Agricultural Research—Basic and Applied Research	\$ 1,204,492
10.025	Plant and Animal Disease, Pest Control, and Animal Care	305,216
10.054	Emergency Conservation Program	10,558
10.063	Agricultural Conservation Program	150,240
10.064	Forestry Incentives Program	46,184
10.068	Rural Clean Water Program	(5,774)
10.156	Federal-State Marketing Improvement Program	166,665
10.162	Inspection Grading and Standardization	49,262
10.163	Market Protection and Promotion	33,761
10.200	Grants for Agricultural Research, Special Research Grants	4,408,768
10.206	Grants for Agricultural Research—Competitive Research Grants	831,636
10.207	Animal Health and Disease Research	100,409
10.210	Food and Agricultural Sciences National Needs Graduate Fellowship Grants	110,596
10.215	Sustainable Agriculture Research and Education	3,441
10.217	Higher Education Challenge Grants	107,199
10.218	Buildings and Facilities Program	52,512
10.220	Higher Education Multicultural Scholars Program	8,697
10.240	Alternative Agricultural Research and Commercialization Program	19,480
10.250	Agricultural and Rural Economic Research	37,488
10.433	Rural Housing Preservation Grants	140,663
10.435	Certified Mediation Program	24,999
10.500	Cooperative Extension Service	226,604
10.550	Food Distribution	7,531,788
10.551	Food Stamps	258,440,273 *
10.553	School Breakfast Program	10,068,747 *
10.555	National School Lunch Program	38,326,089 *
10.556	Special Milk Program for Children	233,277
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	41,623,752 *
10.558	Child and Adult Care Food Program	24,384,180 *
10.559	Summer Food Service Program for Children	1,034,084
10.560	State Administrative Expenses for Child Nutrition	1,339,897
10.561	State Administrative Matching Grants for Food Stamp Program	15,543,948 *
10.564	Nutrition Education and Training Program	150,184
10.565	Commodity Supplemental Food Program	250,841
10.567	Food Distribution Program on Indian Reservations	115,153
10.568	Emergency Food Assistance Program (Administrative Costs)	417,797
10.569	Emergency Food Assistance Program (Food Commodities)	691,332
10.570	Nutrition Program for the Elderly (Commodities)	1,562,751
10.652	Forestry Research	5,617,524
10.664	Cooperative Forestry Assistance	2,913,810

* Major Program

State of Oregon
Schedule of Federal Financial Assistance
July 1, 1995, to June 30, 1996

CFDA

Program No.	Federal Funding Agencies and Program Titles	Expenditures
10.665	Schools and Roads—Grants to States	109,889,617 *
10.670	National Forest—Dependent Rural Communities	31,436
10.6X1	USDA - Blue Mountain Forest	3,703
10.901	Resource Conservation and Development	132,222
10.902	Soil and Water Conservation	98,736
10.904	Watershed Protection and Flood Prevention	2,313
10.960	Technical Agricultural Assistance	83,247
10.961	International Agricultural Research Program	95,940
10.962	International Training—Foreign Participant	12,436
10.XX1	Other Forest Service Programs	250,352
10.XX2	Agency/Consortium for International Development	<u>\$ 6,536,207</u>
Total Department of Agriculture		<u>\$ 535,414,732</u>

Department of Commerce

11.004	Census Intergovernmental Services	\$ 20,807
11.303	Economic Development—Technical Assistance	121,445
11.307	Special Economic Development and Adjustment Assistance Program—Sudden and Severe Economic Dislocation and Long-Term Economic Deterioration	150,704
11.312	Research and Evaluation Program	17,540
11.405	Anadromous Fish Conservation Act Program	379,693
11.407	Interjurisdictional Fisheries Act of 1986	1,279,068
11.413	Fishery Products Inspection and Certification	2,464
11.417	Sea Grant Support	2,679,508
11.419	Coastal Zone Management Administration Awards	2,313,086
11.420	Coastal Zone Management Estuarine Research Reserves	139,661
11.426	Financial Assistance for Ocean Resources Conservation and Assessment Program	100,659
11.427	Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	1,783,503
11.430	Undersea Research	6,007
11.431	Climate and Atmospheric Research	138,446
11.433	Marine Fisheries Initiative	2,799
11.436	Columbia River Fisheries Development Program	6,383,860
11.437	Pacific Fisheries Data Program	57,281
11.438	Pacific Salmon Treaty Program	688,884
11.441	Regional Fishery Management Councils	450,599
11.449	Independent Education and Science Projects and Programs	9,966
11.454	Unallied Management Projects	95,139
11.460	Special Oceanic and Atmospheric Projects	26,721
11.464	Marine Research—Regional Programs	18,468
11.552	Telecommunications and Information Infrastructure Assistance Program	38,954

* Major Program

State of Oregon
Schedule of Federal Financial Assistance
July 1, 1995, to June 30, 1996

CFDA Program No.	Federal Funding Agencies and Program Titles	Expenditures
11.609	Measurement and Engineering Research and Standards	27,103
11.X01	Other Department of Commerce Programs — National Oceanic and Atmospheric Administration	10,788
11.XX1	Other Department of Commerce Programs	<u>301,281</u>
Total Department of Commerce		\$ <u>17,244,434</u>

Department of Defense

12.001	Industrial Equipment Loans to Educational Institutions	\$ 257,612
12.002	Procurement Technical Assistance For Business Firms	47,786
12.105	Protection of Essential Highways, Highway Bridge Approaches, and Public Works	151,631
12.300	Basic and Applied Scientific Research	7,355,621
12.420	Military Medical Research and Development	183,645
12.431	Basic Scientific Research	1,017,013
12.4X1	US Army Chemical Materiel Destruction	743,840
12.800	Air Force Defense Research Sciences Program	761,390
12.900	Language Grant Program	77,890
12.901	Mathematical Sciences Grants Program	8,805
12.910	Research and Technology Development	1,803,529
12.X02	Other Department of Defense Programs (Army Corps of Engineers)	5,012,696
12.XXX	Other Department of Defense Programs	<u>312,065</u>
Total Department of Defense		\$ <u>17,733,523</u>

Department of Housing and Urban Development

14.182	Lower Income Housing Assistance Program—Section 8 New Construction/Substantial Rehabilitation	28,636,256
14.187	Preservation of Affordable Housing	174,206
14.227	Community Development Block Grants/Special Purpose Grants/Technical Assistance Program	1,496,989
14.228	Community Development Block Grants/State's Program	16,914,371 *
14.231	Emergency Shelter Grants Program	685,307
14.235	Supportive Housing Program	490,074
14.239	HOME Investment Partnerships Program	6,830,338
14.243	Opportunities for Youth—Youthbuild Program	8,389
14.244	Empowerment Zones Program	5,961
14.245	Innovative Homeless Initiative Demonstration Program	268,806
14.854	Public and Indian Housing Drug Elimination Program	19,001
14.863	Public and Indian Housing Youth Sports Program	5,615

* Major Program

State of Oregon
Schedule of Federal Financial Assistance
July 1, 1995, to June 30, 1996

CFDA Program No.	Federal Funding Agencies and Program Titles	Expenditures
14.X01	Other Department of Housing and Urban Development Programs	1,242,663
	Total Department of Housing and Urban Development	<u>\$ 56,777,976</u>
Department of the Interior		
15.114	Indian Education—Higher Education Grant Program	\$ 27,782
15.142	Self Determination Grants—Indian Tribal Governments	17,493
15.214	Non-Sale Disposals of Mineral Material	63,583
15.219	Wildlife Habitat Management Technical Assistance	2,603,820
15.221	Cooperative Agreements for Research in Public Lands Management	212,058
15.223	Recreation and Cultural Resource Management	24,221
15.224	Cultural Resource Management	13,917
15.503	Small Reclamation Projects	250,367
15.600	Anadromous Fish Conservation	2,393,877
15.604	Fishery Research—Information	4,491
15.605	Sport Fish Restoration	3,853,623
15.608	Fish and Wildlife Management Assistance	82,421
15.611	Wildlife Restoration	4,990,150
15.612	Endangered Species Conservation	372,086
15.614	Coastal Wetlands Planning, Protection and Restoration Act	39,071
15.616	Clean Vessel Act	160,217
15.805	Assistance to State Water Resources Research Institutes	82,027
15.806	National Water Resources Research Program	553
15.807	Earthquake Hazards Reduction Program	83,841
15.808	Geological Survey—Research and Data Acquisition	559,858
15.875	Economic, Social, and Political Development of the Territories and the Freely Associated States	247,984
15.904	Historic Preservation Fund Grants-in-Aid	895,865
15.915	Technical Preservation Services	98,497
15.916	Outdoor Recreation—Acquisition, Development and Planning	351,161
15.919	Urban Park and Recreation Recovery Program	1,376
15.975	Research Information	1,242,721
15.976	Migratory Bird Banding and Data Analysis	234,493
15.977	State Partnerships	662
15.X02	Other Department of the Interior Programs (Bureau of Reclamation)	32,202
15.X04	Other Department of The Interior Programs (US Fish & Wildlife Services)	435,542
15.XXX	Other Department of the Interior Programs	<u>593,511</u>
	Total Department of the Interior	<u>\$ 19,969,470</u>

Department of Justice

* Major Program

State of Oregon
 Schedule of Federal Financial Assistance
 July 1, 1995, to June 30, 1996

CFDA

Program No.	Federal Funding Agencies and Program Titles	Expenditures
16.540	Juvenile Justice and Delinquency Prevention—Allocation to States	\$ 530,159
16.548	Title V—Delinquency Prevention Program	81,852
16.549	Part E—State Challenge Activities	53,187
16.550	Criminal Justice Statistics Development	28,572
16.554	National Criminal History Improvement Program (NCHIP)	3,003
16.560	Justice Research, Development, and Evaluation Project Grants	44,997
16.575	Crime Victim Assistance	884,300
16.576	Crime Victim Compensation	846,850
16.579	Drug Control and System Improvement—Formula Grant	44,545
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	316,168
16.582	Crime Victim Assistance/Discretionary Grants	32,375
16.710	Public Safety and Community Policing Grants	344,445
16.858	Drug Court Planning Initiative	<u>24,782</u>
Total Department of Justice		\$ <u>3,235,235</u>

Department of Labor

17.002	Labor Force Statistics	\$ 1,138,389
17.005	Compensation and Working Conditions Data	104,734
17.207	Employment Service	10,728,335 *
17.225	Unemployment Insurance	446,811,592 *
17.235	Senior Community Service Employment Program	1,149,450
17.245	Trade Adjustment Assistance—Workers	2,782,532
17.249	Employment Services and Job Training—Pilot and Demonstration Programs	618,961
17.250	Job Training Partnership Act	38,698,371 *
17.502	Occupational Safety and Health—Training and Education	4,064,878
17.504	Consultation Agreements	235,716
17.600	Mine Health and Safety Grants	78,321
17.801	Disabled Veterans' Outreach Program (DVOP)	1,035,560
17.802	Veterans' Employment Program	452,298
17.804	Local Veterans' Employment Representative Program	1,186,781
17.XX1	Other Department of Labor Programs	<u>24,863</u>
Total Department of Labor		\$ <u>509,110,781</u>

Department of State

19.XX1	Other Department of State Programs (Peace Corps)	<u>\$ 19,000</u>
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* Major Program

State of Oregon
 Schedule of Federal Financial Assistance
 July 1, 1995, to June 30, 1996

CFDA Program No.	Federal Funding Agencies and Program Titles	Expenditures
Total Department of State		\$ 19,000
Department of Transportation		
20.005	Boating Safety Financial Assistance	\$ 535,845
20.106	Airport Improvement Program	2,310,181
20.107	Airway Science	592,949
20.205	Highway Planning and Construction	211,876,141 *
20.215	Highway Training and Education	122,883
20.218	Motor Carrier Safety Assistance Program	1,549,205
20.303	Grants-in-Aid for Railroad Safety—State Participation	59,790
20.308	Local Rail Freight Assistance	40,939
20.312	High Speed Ground Transportation	317,430
20.502	Federal Transit Grants for University Research and Training	119,853
20.505	Federal Transit Technical Studies Grants	390,958
20.509	Public Transportation for Nonurbanized Areas	1,597,601
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	838,225
20.515	State Planning and Research	18,399
20.600	State and Community Highway Safety	2,474,290
20.601	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	186,960
20.700	Pipeline Safety	113,551
20.701	University Transportation Centers Program	61,304
20.702	University Research Institutes Program	(3,190)
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	37,929
20.X02	Other Department of Transportation Programs	8,137
Total Department of Transportation		\$ 223,249,380
General Services Administration		
39.002	Disposal of Federal Surplus Real Property	\$ 809,467
39.003	Donation of Federal Surplus Personal Property	1,959,527
39.X01	Other General Services Administration Programs	4,356
39.XX1	Other General Services Administration Programs	1
Total General Services Administration		\$ 2,773,351
National Aeronautics and Space Administration		
43.001	Aerospace Education Services Program	\$ 666,063
43.002	Technology Transfer	6,779,650

* Major Program

State of Oregon
Schedule of Federal Financial Assistance
July 1, 1995, to June 30, 1996

CFDA Program No.	Federal Funding Agencies and Program Titles	Expenditures
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Total National Aeronautics and Space Administration	<u>\$ 7,445,713</u>
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National Foundation on the Arts and the Humanities

45.003	Promotion of the Arts—Arts in Education	\$ 27,766
45.007	Promotion of the Arts—State and Regional Program	521,953
45.009	Promotion of the Arts—Visual Arts	46,914
45.011	Promotion of the Arts—Presenting and Commissioning	10,000
45.015	Promotion of the Arts—Folk Arts	42,900
45.022	Promotion of the Arts—Advancement Grants	12,235
45.127	Promotion of the Humanities—Elementary and Secondary Education in the Humanities	84,235
45.129	Promotion of the Humanities—Federal-State Partnership	3,000
45.133	Promotion of the Humanities—Interpretive Research/Humanities, Science, and Technology	43,032
45.145	Promotion of the Humanities—Reference Materials	51,283
45.151	Promotion of the Humanities—Summer Seminars for School Teachers	146,752
45.158	Promotion of the Humanities—Leadership Opportunity in Science and Humanities Education	27,915
45.1X1	Other Promotion of the Humanities Programs	65,978
45.301	Institute of Museum Services	85,735
45.X1X	Other Promotion of the Humanities Programs	(65,977)
45.XX1	Other Promotion of the Humanities Programs	<u>75,214</u>
Total National Foundation on the Arts and the Humanities		<u>\$ 1,178,935</u>

National Science Foundation

47.041	Engineering Grants	\$ 876,483
47.049	Mathematical and Physical Sciences	4,686,176
47.050	Geosciences	10,723,079 *
47.051	Biological, Behavioral, and Social Sciences	137,996
47.070	Computer and Information Science and Engineering	1,301,068
47.073	Science and Technology Centers	206,344
47.074	Biological Sciences	6,509,201
47.075	Social, Behavioral, and Economic Sciences	521,079
47.076	Education and Human Resources	1,681,996
47.XXX	Other National Science Foundation Programs	<u>213,647</u>
Total National Science Foundation		<u>\$ 26,857,069</u>

* Major Program

State of Oregon
 Schedule of Federal Financial Assistance
 July 1, 1995, to June 30, 1996

CFDA Program No.	Federal Funding Agencies and Program Titles	Expenditures
Small Business Administration		
59.005	Business Development Assistance to Small Business	\$ 34,519
59.037	Small Business Development Center	68,688
59.045	Natural Resource Development	94,354
59.099		<u>35,014</u>
	Total Small Business Administration	\$ <u>232,575</u>
Department of Veterans Affairs		
64.005	Grants to States for Construction of State Home Facilities	\$ 1,591,796
64.115	Veterans Information and Assistance	311,042
64.125	Vocational and Educational Counseling for Servicemembers and Veterans	30,973
64.XX1	Other Veterans Administration Programs	<u>162,222</u>
	Total Department of Veterans Affairs	\$ <u>2,096,033</u>
Environmental Protection Agency		
66.001	Air Pollution Control Program Support	\$ 2,555,067
66.032	State Indoor Radon Grants	26,000
66.419	Water Pollution Control—State and Interstate Program Support	1,308,876
66.432	State Public Water System Supervision	1,005,174
66.433	State Underground Water Source Protection	99,796
66.435	Water Pollution Control—Lake Restoration Cooperative Agreements	12,978
66.438	Construction Management Assistance	117,894
66.454	Water Quality Management Planning	539,683
66.458	Capitalization Grants for State Revolving Funds	7,123,357
66.460	Nonpoint Source Implementation Grants	1,642,460
66.461	Wetlands Protection—State and Tribal Development Grants	389,340
66.463	National Pollutant Discharge Elimination System Related State Program Grants	57,282
66.464	Near Coastal Waters	31,619
66.465	Wellhead Protection Demonstration Projects	4,074
66.500	Environmental Protection—Consolidated Research	1,005,746
66.501	Air Pollution Control Research	593,091
66.502	Pesticides Control Research	223,397
66.504	Solid Waste Disposal Research	157,081
66.505	Water Pollution Control—Research, Development, and Demonstration	1,643,832
66.507	Toxic Substances Research	311,111
66.700	Consolidated Pesticide Compliance Monitoring and Program Cooperative Agreements	751,472

* Major Program

State of Oregon
 Schedule of Federal Financial Assistance
 July 1, 1995, to June 30, 1996

CFDA Program No.	Federal Funding Agencies and Program Titles	Expenditures
66.706	Enhancement Grants for State Asbestos Programs	6,810
66.707	TSCA Title IV State Lead Grants—Certification of Lead-Based Paint Professionals	184,206
66.708	Pollution Prevention Grants Program	47,405
66.801	Hazardous Waste Management State Program Support	746,049
66.802	Superfund State Site—Specific Cooperative Agreements	995,425
66.804	State Underground Storage Tanks Program	199,287
66.805	Leaking Underground Storage Tank Trust Fund Program	1,158,179
66.808	Solid Waste Management Assistance	204,397
66.8X2	Regional Multi-Media Initiatives	16,377
66.950	Environmental Education and Training Program	19,351
66.951	Environmental Education Grants	285,539
66.XX1	Other Environmental Protection Agency Programs—Lead Prevention	96,609
66.XX2	Other Environmental Protection Agency Programs—Water Quality	195,553
66.XX3	Other Environmental Protection Agency Programs—Climate Change Project	972
	Total Environmental Protection Agency	\$ 23,755,489

* Major Program

State of Oregon
Schedule of Federal Financial Assistance
July 1, 1995, to June 30, 1996

CFDA

Program No.	Federal Funding Agencies and Program Titles	Expenditures
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Nuclear Regulatory Commission

77.003	Enhance Technology Transfer and Dissemination of Nuclear Energy Process and Safety Information	\$ 821,745
Total Nuclear Regulatory Commission		\$ 821,745

Department of Energy

81.004	University-Laboratory Cooperative Program	\$ 86,004
81.041	State Energy Conservation	552,890
81.042	Weatherization Assistance for Low-Income Persons	2,393,652
81.049	Basic Energy Sciences—University and Science Education	9,129,356
81.052	Energy Conservation for Institutional Buildings	322,776
81.065	Nuclear Waste Disposal Siting	78,541
81.077	University Research Instrumentation	121,464
81.079	Regional Biomass Energy Programs	16,435
81.080	Policy, Planning and Program Development	35,684
81.086	Conservation Research and Development	216,793
81.087	Renewable Energy Research and Development	538,612
81.092	Environmental Restoration	585,515
81.095	Nuclear Energy, Reactor Systems, Development, and Technology	96,426
81.102	Academic Partnerships	24,615
81.105	National Industrial Competitiveness through Energy, Environment, and Economics	94,593
81.X04	Other Department of Energy Programs (BPA-Hatcheries)	1,920,908
81.X05	Other Department of Energy Programs (BPA-Planning)	1,089,809
81.X06	Other Department of Energy Programs (BPS-Research)	4,066,093
81.X07	Other Department of Energy Programs (BPS-Squawfish)	574,656
81.X08	Other Department of Energy Programs (BPA-Habitat)	1,193,254
81.X10	Other Department of Energy Programs-Western Governors' Association	16,359
81.X19	Other Department of Energy Programs (BPA-Construction)	1,669,870
81.X20	Other Department of Energy Programs-Basic Science Building at OHSU	14,920
81.X26	Other Department of Energy Programs-Energy	204,261
81.XX1	Other Department of Energy Programs	971,421
81.XX7	Other Department of Energy Programs-BPA:Solar Market Test Support	302
Total Department of Energy		\$ 26,015,209

United States Information Agency

* Major Program

State of Oregon
Schedule of Federal Financial Assistance
July 1, 1995, to June 30, 1996

CFDA

Program No.	Federal Funding Agencies and Program Titles	Expenditures
82.002	Educational Exchange—University Lecturers (Professors) and Research Scholars	\$ 158,805
82.XX1	Other United States Information Programs-Undergraduate Exchange	<u>64,040</u>
Total United States Information Agency		<u>\$ 222,845</u>

Federal Emergency Management Agency

83.009	National Fire Academy Training Assistance	\$ 9,641
83.011	Hazardous Materials Training Program for Implementation of the Superfund Amendment and Reauthorization Act (SARA) of 1986	30,140
83.012	Hazardous Materials Assistance Program	4,773
83.105	Community Assistance Program—State Support Services Element (CAP-SSSE)	45,839
83.503	Civil Defense—State and Local Emergency Management Assistance	201,188
83.516	Disaster Assistance	3,097,237
83.519	Hazard Mitigation Assistance	5,721
83.521	Earthquake Hazards Reduction Grants	912,660
83.523	Federal Emergency Management Food and Shelter Program	4,249
83.527	Emergency Management Institute—Training Assistance	36,103
83.XX1	Other Federal Emergency Management Programs	<u>2,190,485</u>
Total Federal Emergency Management Agency		<u>\$ 6,538,036</u>

Department of Education

84.002	Adult Education—State Grant Program	\$ 3,219,980
84.004	Desegregation Assistance, Civil Rights Training, and Advisory Services	163,680
84.007	Federal Supplemental Educational Opportunity Grants	3,788,727
84.009	Education of Children with Disabilities in State Operated or Supported Schools	1,188,076
84.010	Title I Grants to Local Educational Agencies	66,141,437 *
84.011	Migrant Education—Basic State Grant Program	13,039,068 *
84.012	Educationally Deprived Children—State Administration	223,157
84.013	Title I Program for Neglected and Delinquent Children	579,930
84.014	Follow Through	(707)
84.015	National Resource Centers and Fellowships Program for Language and Area or Language and International Studies	144,009
84.016	Undergraduate International Studies and Foreign Language Programs	222,481
84.021	International: Overseas—Group Projects Abroad	48,370
84.023	Special Education—Innovation and Development	679,207
84.024	Early Education for Children with Disabilities	1,169,560
84.025	Services for Children with Deaf-Blindness	1,544,186

* Major Program

State of Oregon
 Schedule of Federal Financial Assistance
 July 1, 1995, to June 30, 1996

CFDA Program No.	Federal Funding Agencies and Program Titles	Expenditures
84.027	Special Education—Grants to States	26,296,214 *
84.028	Special Education—Regional Resource Centers	1,627,955
84.029	Special Education—Personnel Development and Parent Training	3,514,764
84.031	Higher Education—Institutional Aid	550,546
84.032	Federal Family Education Loans	86,968,611 *
84.033	Federal Work-Study Program	3,480,361
84.034	Public Library Services	906,695
84.035	Interlibrary Cooperation and Resource Sharing	65,172
84.036	Library Education and Training	4,665
84.038	Federal Perkins Loan Program—Federal Capital Contributions	12,447,499 *
84.039	Library Research and Demonstrations	291,918
84.042	TRIO—Student Support Services	1,247,532
84.044	TRIO—Talent Search	213,989
84.047	TRIO—Upward Bound	349,778
84.048	Vocational Education—Basic Grants to States	12,210,934 *
84.049	Vocational Education—Consumer and Homemaking Education	258,551
84.055	Higher Education—Cooperative Education	147,312
84.063	Federal Pell Grant Program	20,118,153 *
84.069	State Student Incentives Grants	883,963
84.073	National Diffusion Network	73,645
84.078	Special Education—Postsecondary Education Programs for Persons with Disabilities	91,953
84.086	Special Education—Program for Severely Disabled Children	818,164
84.087	Indian Education—Fellowships for Indian Students	38,716
84.094	Harris Fellowships	3,958
84.097	Law School Clinical Experience Program	151,221
84.116	Fund for the Improvement of Postsecondary Education	334,398
84.117	Educational Research and Development	407,639
84.126	Rehabilitation Services—Vocational Rehabilitation Grants to States	23,662,293 *
84.128	Rehabilitation Services—Service Projects	105,982
84.129	Rehabilitation Long-Term Training	426,086
84.133	National Institute on Disability and Rehabilitation Research	1,806,930
84.141	Migrant Education—High School Equivalency Program	493,943
84.144	Migrant Education—Coordination Program	826,278
84.149	Migrant Education—College Assistance Migrant Program	419,041
84.151	Chapter 2—State Block Grants	1,149,792
84.154	Public Library Construction and Technology Enhancement	176,646
84.158	Secondary Education and Transitional Services for Youth with Disabilities	1,072,404
84.159	Special Education—Special Studies for Persons with Disabilities	360,017
84.160	Training Interpreters for Individuals who are Deaf and Individuals Who are Deaf-Blind	140,589
84.161	Rehabilitation Services—Client Assistance Program	96,150
84.162	Immigrant Education	401,702
84.164	Eisenhower Mathematics and Sciences Education—State Grants	1,350,969

* Major Program

State of Oregon
 Schedule of Federal Financial Assistance
 July 1, 1995, to June 30, 1996

CFDA Program No.	Federal Funding Agencies and Program Titles	Expenditures
84.168	Eisenhower Professional Development—National Activities	405,348
84.169	Independent Living—State Grants	358,244
84.173	Special Education—Preschool Grants	3,120,866
84.174	Vocational Education—Community Based Organizations	184,999
84.177	Rehabilitation Services—Independent Living Services for Older Individuals Who are Blind	174,234
84.180	Technology Applications for Individuals with Disabilities	1,609,565
84.181	Special Education—Grants for Infants and Families with Disabilities	3,962,303
84.184	Drug-Free Schools and Communities—National Programs	50,024
84.185	Byrd Honors Scholarships	342,387
84.186	Safe and Drug-Free Schools—State Grants	4,150,950
84.187	Supported Employment Services for Individuals with Severe Disabilities	389,224
84.190	Christa McAuliffe Fellowships	36,063
84.194	Bilingual Education Support Services	77,984
84.195	Bilingual Education—Professional Development	168,932
84.196	Education for Homeless Children and Youth	289,028
84.197	College Library Technology and Cooperation Grants	177,521
84.199	Vocational Education—Cooperative Demonstration	5,837,085
84.200	Graduate Assistance in Areas of National Need	289,083
84.213	Even Start—State Educational Agencies	1,370,987
84.215	Fund for the Improvement of Education	1,194,187
84.218	State Program Improvement Grants	460,736
84.224	State Grants for Assistive Technology	847,380
84.235	Special Projects and Demonstrations for Providing Vocational Rehabilitation Services to Individuals with Severe Disabilities	2,122,502
84.237	Special Education—Program for Children with Serious Emotional Disturbance	104,676
84.242	National Science Scholars	1,877
84.243	Tech-Prep Education	1,199,420
84.249	Foreign Language Assistance	165,683
84.252	Urban Community Services	247,134
84.254	State Literacy Resource Centers	100,380
84.257	National Institute for Literacy	19,338
84.261	Eisenhower Leadership Program	15,219
84.263	Rehabilitation Training—Experimental and Innovative Training	102,733
84.265	Rehabilitation Training—State Vocational Rehabilitation Unit In-Service Training	66,323
84.268	Federal Direct Student Loan	140,031,021 *
84.276	Goals 2000—State and Local Education Systemic Improvement Grants	3,050,021
84.279	Goals 2000—Assessment Development and Evaluation Grants	454,951
84.281	Eisenhower Professional Development State Grants	1,856,843
84.282	Public Charter Schools	231,753
84.293	Foreign Languages Assistance	55,318
84.298	Innovative Education Program Strategies	3,348,884

* Major Program

State of Oregon
Schedule of Federal Financial Assistance
July 1, 1995, to June 30, 1996

CFDA Program No.	Federal Funding Agencies and Program Titles	Expenditures
84.XX1	Other Department of Education Programs-Misc Student Financial Pass Through	118,961
84.XX3	Other Department of Education Programs	<u>32,925</u>
Total Department of Education		\$ 476,967,381
National Archives and Records Administration		
89.003	National Historical Publications and Records Grants	<u>\$ 423</u>
Total National Archives and Records Administration		\$ 423
United States Institute of Peace		
91.001	International Peace and Conflict Management—Research and Education	<u>\$ 12,126</u>
Total United States Institute of Peace		\$ 12,126
Department of Health and Human Services		
93.036		\$ 950
93.041	Special Programs for the Aging—Title VII, Chapter 3—Programs for Prevention of Elder Abuse, Neglect, and Exploitation	46,744
93.043	Special Programs for the Aging—Title III, Part F—Disease Prevention and Health Promotion Services	188,284
93.044	Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers	3,844,826
93.045	Special Programs for the Aging—Title III, Part C—Nutrition Services	4,560,405
93.046	Special Programs for the Aging—Title III, Part D—In-Home Services for Frail Older Individuals	78,846
93.048	Special Programs for the Aging—Title IV—Training, Research and Discretionary Projects and Programs	214,249
93.049	Special Programs for the Aging—Title VII, Chapter 6—Allotments for Vulnerable Elder Rights Protection Programs	23,691
93.101	Grants for Residential Treatment Programs for Pregnant and Postpartum Women	(14,538)
93.103	Food and Drug Administration—Research	340,865
93.106	Minority International Research Training Grant in the Biomedical and Behavioral Sciences	8,181
93.110	Maternal and Child Health Federal Consolidated Programs	2,713,082
93.113	Biological Response to Environmental Health Hazards	2,175,326

* Major Program

State of Oregon
 Schedule of Federal Financial Assistance
 July 1, 1995, to June 30, 1996

CFDA Program No.	Federal Funding Agencies and Program Titles	Expenditures
93.114	Applied Toxicological Research and Testing	130,522
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	547,450
93.117	Grants for Preventive Medicine and Dental Public Health	1,212,668
93.118	Acquired Immunodeficiency Syndrome (AIDS) Activity	2,670,113
93.119	Grants for Technical Assistance Activities Related to the Block Grant for Community Mental Health Services - Technical Assistance Centers for Evaluation	143,396
93.121	Oral Diseases and Disorders Research	1,471,723
93.125	Mental Health Planning and Demonstration Projects	1,205,321
93.130	Primary Care Services—Resource Coordination and Development Primary Care Offices	259,008
93.131	Cooperative Agreements for Addiction Treatment Training Centers	348,299
93.136	Injury Prevention and Control Research and State and Community Based Programs	410,684
93.150	Projects for Assistance in Transition from Homelessness (PATH)	300,000
93.155	Rural Health Research Centers	149,583
93.161	Health Program for Toxic Substances and Disease Registry	54,951
93.169	Demonstration Grants on Model Projects for Pregnant and Postpartum Women and Their Infants (Substance Abuse)	433
93.172	Human Genome Research	448,134
93.173	Research Related to Deafness and Communication Disorders	798,082
93.184	Disabilities Prevention	287,871
93.186	National Research Services Awards	48,239
93.189	Health Education and Training Centers	196,027
93.194	Community Prevention Coalitions (Partnership) Demonstration Grant	47,540
93.196	Cooperative Agreements for Drug Abuse Treatment Improvement Projects in Target Cities	77,510
93.197	Childhood Lead Poisoning Prevention Projects—State and Community-Based Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	304,560
93.198	Biological Models and Materials Research	318,200
93.217	Family Planning—Services	1,421,882
93.225	National Research Service Awards—Health Services Research Training	413,118
93.229	Demonstration Cooperative Agreements for Development and Implementation of Criminal Justice Treatment Networks	126,381
93.242	Mental Health Research Grants	3,044,050
93.244	Mental Health Clinical and AIDS Service-Related Training Grants	12,915
93.262	Occupational Safety and Health Research Grants	166,093
93.268	Childhood Immunization Grants	7,839,625
93.272	Alcohol National Research Service Awards for Research Training	173,294
93.273	Alcohol Research Programs	1,144,725
93.274	Clinical Training Grant for Faculty Development in Alcohol and Drug Abuses	94

* Major Program

State of Oregon
 Schedule of Federal Financial Assistance
 July 1, 1995, to June 30, 1996

CFDA

Program No.	Federal Funding Agencies and Program Titles	Expenditures
93.277	Drug Abuse Scientist Development Awards, Research Scientist Development Awards, and Research Scientist Awards	150,228
93.278	Drug Abuse National Research Service Awards for Research Training	51,299
93.279	Drug Abuse Research Programs	3,034,289
93.281	Mental Health Research Career/Scientist Development Award	328,525
93.282	Mental Health National Research Service Awards for Research Training	83,216
93.283	Centers for Disease Control and Prevention—Investigations and Technical Assistance	1,279,888
93.298	Nurse Practitioner and Nurse-Midwifery Education Program	396,617
93.306	Comparative Medicine	70,309
93.333	Clinical Research	1,900,276
93.337	Biomedical Research Support	444,453
93.358	Professional Nurse Traineeships	152,053
93.361	Nursing Research	809,306
93.379	Grants for Graduate Training in Family Medicine	137,064
93.389	Research Infrastructure	305,731
93.390	Academic Research Enhancement Award	68,229
93.393	Cancer Cause and Prevention Research	2,073,679
93.395	Cancer Treatment Research	852,607
93.396	Cancer Biology Research	633,239
93.397	Cancer Centers Support	93,424
93.398	Cancer Research Manpower	135,906
93.554	Emergency Protection Grants—Substance Abuse	294,988
93.556	Family Preservation and Support Services	896,375
93.560	Family Support Payment to States—Assistance Payments	157,333,781 *
93.561	Job Opportunities and Basic Skills Training	13,971,895 *
93.562	Assistance Payment—Research	178,682
93.563	Child Support Enforcement	19,026,372 *
93.566	Refugee and Entrant Assistance—State Administered Programs	5,850,695
93.568	Low-Income Home Energy Assistance	12,868,476 *
93.569	Community Services Block Grant	3,367,356
93.570	Community Services Block Grant—Discretionary Awards	231,275
93.571	Community Services Block Grant Discretionary Awards—Community Food and Nutrition	51,184
93.572	Emergency Community Services for the Homeless	163,372
93.574	Child Care for Families At-Risk of Welfare Dependency	27,372
93.575	Child Care and Development Block Grant	7,772,737
93.576	Refugee and Entrant Assistance—Discretionary Grants	344,095
93.580	Family Resource Centers	108,257
93.584	Refugee and Entrant Assistance—Targeted Assistance	402,267
93.586	State Court Improvement Program	67,922
93.600	Head Start	1,963,031
93.608	Child Welfare Research and Demonstration	108,398
93.612	Native American Programs	14,003

* Major Program

State of Oregon
 Schedule of Federal Financial Assistance
 July 1, 1995, to June 30, 1996

CFDA

Program No.	Federal Funding Agencies and Program Titles	Expenditures
93.614	Child Development Associate Scholarships	14,345
93.630	Developmental Disabilities Basic Support and Advocacy Grants	466,818
93.631	Developmental Disabilities Projects of National Significance	144,644
93.632	Developmental Disabilities University Affiliated Programs	681,197
93.643	Children's Justice Grants to States	108,872
93.645	Child Welfare Services—State Grants	3,626,454
93.647	Social Services Research and Demonstration	59,732
93.648	Child Welfare Services Training Grants	712,442
93.652	Adoption Opportunities	820,035
93.656	Temporary Child Care and Crisis Nurseries	239,112
93.658	Foster Care—Title IV-E	26,140,706 *
93.659	Adoption Assistance	4,430,588
93.667	Social Services Block Grant	29,033,832 *
93.669	Child Abuse and Neglect State Grants	326,686
93.670	Child Abuse and Neglect Discretionary Activities	186,301
93.671	Family Violence Prevention and Services—Grants to States and Indian Tribes	264,539
93.673	Grants to States for Planning and Development of Dependent Care Programs	320,227
93.674	Independent Living	924,035
93.775	State Medicaid Fraud Control Units	300,277
93.777	State Survey and Certification of Health Care Providers and Suppliers	3,363,263
93.778	Medical Assistance Program	984,541,184 *
93.779	Health Care Financing Research, Demonstrations and Evaluations	201,326
93.802	Social Security—Disability Insurance	11,866,462 *
93.807	Supplement Security Income	422,653
93.812	Social Security—Research and Demonstration	396,524
93.821	Cell Biology and Biophysics Research	3,529,108
93.824	Area Health Education Centers	2,424,759
93.837	Heart and Vascular Diseases Research	3,701,858
93.838	Lung Diseases Research	1,002,562
93.839	Blood Diseases and Resources Research	2,087,634
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	325,693
93.847	Diabetes, Endocrinology and Metabolism Research	4,344,942
93.848	Digestive Diseases and Nutrition Research	855,233
93.849	Kidney Diseases, Urology and Hematology Research	677,681
93.853	Clinical Research Related to Neurological Disorders	1,776,511
93.854	Biological Basis Research in the Neurosciences	4,728,994
93.855	Allergy, Immunology and Transplantation Research	934,709
93.856	Microbiology and Infectious Diseases Research	2,742,938
93.859	Pharmacology, Physiology, and Biological Chemistry Research	886,319
93.862	Genetics and Developmental Biology Research	3,486,855
93.863	Cellular and Molecular Basis of Disease Research	1,582,388
93.864	Population Research	271,275
93.865	Research for Mothers and Children	3,600,226
93.866	Aging Research	2,199,982

* Major Program

State of Oregon
Schedule of Federal Financial Assistance
July 1, 1995, to June 30, 1996

CFDA Program No.	Federal Funding Agencies and Program Titles	Expenditures
93.867	Vision Research	3,085,517
93.871	Stabismus, Amblyopia and Visual Processing	133,416
93.879	Medical Library Assistance	629,940
93.884	Grants for Residency Training in General Internal Medicine and/or General Pediatrics	184,014
93.886	Grants for Physician Assistant Training Program	268,113
93.891	Alcohol Research Center Grants	557,023
93.894	Resource and Manpower Development in the Environmental Health Sciences	1,818,967
93.895	Grants for Faculty Development in Family Medicine	4,623
93.896	Grants for Predoctoral Training in Family Medicine	110,725
93.900	Grants for Faculty Development in General Internal Medicine and/or General Pediatrics	89,878
93.902	Model Comprehensive Drug Abuse Treatment Programs for Critical Populations	63,635
93.903	Model Criminal Justice Drug Abuse Treatment for Incarcerated Populations, Non-Incarcerated Populations and Juvenile Justice Populations	705,855
93.906	Rural Health Medical Education Demonstration Projects	17,705
93.912	Rural Health Services Outreach	218,978
93.913	Grants to States for Operation of Offices of Rural Health	48,079
93.917	HIV Care Formula Grants	1,177,567
93.919	Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	925,509
93.925	Scholarships for Health Professions Students from Disadvantaged Background	6,927
93.926	Healthy Start Initiative	7,776
93.928	Special Projects of National Significance	407,185
93.929	Center for Medical Rehabilitation Research	106,835
93.934	Fogarty International Research Collaboration Award	35,412
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	326,184
93.940	HIV Prevention Activities—Health Department Based	329,771
93.942	Research, Treatment and Education Programs on Lyme Disease in the US	45,116
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	178,186
93.949	HIV/AIDS and Related Diseases Among Substance Abusers: Community-Based Outreach and Intervention Demonstration Program	9,022
93.951	Demonstration Grants to States with Respect to Alzheimer's Disease	207,083
93.958	Block Grants for Community Mental Health Services	3,581,227
93.959	Block Grants for Prevention and Treatment of Substance Abuse	10,188,449 *
93.969	Grants for Geriatric Education Centers	119,822
93.974	Family Planning—Service Delivery Improvement Research Grants	27,659
93.977	Preventive Health Services—Sexually Transmitted Diseases Control Grants	985,855
93.984	Grants for Establishment of Departments of Family Medicine	137,338
93.987	Health Programs for Refugees	47,570

* Major Program

State of Oregon
 Schedule of Federal Financial Assistance
 July 1, 1995, to June 30, 1996

CFDA Program No.	Federal Funding Agencies and Program Titles	Expenditures
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance System	240,934
93.989	Senior International Fellowships	23,144
93.991	Preventive Health and Health Services Block Grant	1,056,939
93.994	Maternal and Child Health Services Block Grant to the States	4,407,377
93.XX1	Other Department of Health and Human Services Programs (Vital Statistics Cooperative Program)	169,246
Total Department of Health and Human Services		<u>\$ 1,421,432,795</u>

Corporation for National and Community Service

94.003	State Commission	\$ 1,330,361
94.004	Learn and Serve America—School and Community Based Programs	246,924
94.005	Learn and Serve America—Higher Education	485,048

* Major Program

State of Oregon
 Schedule of Federal Financial Assistance
 July 1, 1995, to June 30, 1996

CFDA Program No.	Federal Funding Agencies and Program Titles	Expenditures
94.006	AmeriCorps	20,484
94.011	Foster Grandparent Program	<u>152,564</u>
	Total Corporation for National and Community Service	\$ <u>2,235,381</u>
	Total Federal Financial Assistance	<u>\$ 3,381,339,637</u>

* Major Program

Notes to the Schedule of Federal Financial Assistance

Determination of a Major Federal Program

In accordance with the Single Audit Act of 1984, the basis used for determining a major federal program is total federal financial assistance expenditures for the fiscal year. When total federal financial assistance expenditures are more than \$3 billion, but less than \$4 billion, the Act defines a major federal program as one that exceeds \$10 million. Therefore, in the *Schedule of Federal Financial Assistance*, programs totaling \$10 million or more are major programs.

Programs Involving Non-Cash Expenditures

Federal expenditures reported in the schedule include non-cash assistance, and new loans and new loan guarantees issued during the fiscal year. Non-cash expenditures in the schedule are reported at fair value for programs 10.550 and 10.551. The General Services Commission determines the value for program 39.003. The following is a list of the non-cash programs included in the schedule:

<u>Program Number</u>	<u>Program Title</u>	<u>Types of Assistance</u>
10.550	Food Distribution	Donated Commodities
10.551	Food Stamps	Redeemable Food Coupons
39.003	Donation of Federal Surplus Personal Property	Donated Personal Property

Loans and Loan Guarantees Outstanding

Loans and loan guarantees outstanding at June 30, 1996, are as follows:

<u>Loans/Guarantees Program Number</u>	<u>Program Title</u>	<u>June 30, 1996 Balance</u>
11.307	Special Economic Development and Adjustment Assistance Program	\$ 2,672,309
66.458	Capitalization Grants for State Revolving Funds	66,523,483
84.032	Federal Family Education Loans	630,979,032
83.038	Federal Perkins Loan Program — Federal Capital Contributions	71,701,171
93.342	Health Professionals Student Loans	5,922,775
93.364	Nursing Student Loans	896,654
	Total	<u>\$ 778,695,424</u>



The Honorable John A. Kitzhaber
Governor of Oregon
State Capitol
Salem, Oregon 97310

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

We have audited the general-purpose financial statements of the state of Oregon as of and for the year ended June 30, 1996, and have issued our report thereon dated December 23, 1996, except for Note 18.C., as to which the date is January 17, 1997. We have also audited the state's compliance with federal and state laws and regulations as listed below in the section titled Summary of Federal and State Compliance Matters.

We conducted our audit of compliance in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*. The management of the state is responsible for compliance with federal and state laws and regulations.

Summary of Federal and State Compliance Matters

Constitution of the State of Oregon

Oregon Revised Statutes

State agency administrative rules

State agency rules and regulations

Federal program requirements, including:

General Requirements:

Political Activity

Davis-Bacon Act

Civil Rights

Cash Management

Relocation Assistance and Real Property Management

Federal Financial Reports
Allowable Costs/Cost Principles
Drug-Free Workplace
Administrative Requirements

Specific Requirements:

Types of Services
Eligibility
Matching, Level of Effort, or Earmarking
Reporting
Cost Allocation
Special Requirements, if any

Monitoring Subrecipients
Claims for Advances and Reimbursements
Amounts Claimed or Used for Matching

Compliance With Laws and
Regulations Material to the Financial
Statements

Generally accepted auditing standards and *Government Auditing Standards* require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the state's compliance with certain provisions of federal and state laws and regulations listed above in the section titled Summary of Federal and State Compliance Matters. Our objective, however, was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*. However, the test results disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying Schedule of Findings and Questioned Costs.

Opinion on Compliance With
Specific Requirements Applicable to
Major Programs

In connection with the audit of the general-purpose financial statements, we have audited the state's compliance with the specific requirements referred to above that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance, for the year ended June 30, 1996.

Our responsibility is to express an opinion on compliance with the specific requirements applicable to major federal financial assistance programs based on our

audit. Generally accepted auditing standards, *Government Auditing Standards*, and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the specific requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the state's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the specific requirements referred to above, which are described in the accompanying Schedule of Findings and Questioned Costs. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the state of Oregon complied, in all material respects, with the specific requirements referred to above that are applicable to each of its major federal financial assistance programs for the year ended June 30, 1996.

Compliance With the General Requirements

In connection with our audit of the general-purpose financial statements, we have applied procedures to test the state's compliance with the general requirements referred to above that are applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance for the year ended June 30, 1996.

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's *Compliance Supplement for Single Audits of State and Local Governments*. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the state's compliance with the general requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the general requirements. With respect to items not tested, nothing came to our attention that caused us to believe that the state had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying Schedule of Findings and Questioned Costs.

Compliance With the Requirements Applicable to Nonmajor Programs

In connection with our audit of the general-purpose financial statements, and with our consideration of the state's internal control used to administer federal financial assistance programs, as required by OMB Circular A-128, *Audits of State and Local Governments*, we selected transactions applicable to certain nonmajor federal financial assistance programs for the year ended June 30, 1996. As required by OMB Circular A-128, we performed auditing procedures to test compliance with the general and specific requirements applicable to those transactions tested. Our procedures were substantially

less in scope than an audit, the objective of which is the expression of an opinion on the state's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements relating to the nonmajor programs described in the preceding paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the state of Oregon had not complied, in all material respects, with those requirements.

This report is intended for the information of the management of the state of Oregon. However, this report is a matter of public record and its distribution is not limited.

OREGON AUDITS DIVISION

Sharron E. Walker, CPA, CFE
Deputy State Auditor

April 4, 1997

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JULY 1, 1995, TO JUNE 30, 1996

OREGON DEPARTMENT OF HUMAN RESOURCES
DIRECTOR'S OFFICE

96-FC-410.00-01

Medical Assistance Program

CFDA 93.778

Questioned Costs: \$1,580,561

Expenditures reported to the federal government for the Medical Assistance Program by the Office of Medical Assistance Programs (OMAP), within the Department of Human Resources Director's Office, were overstated for the quarter ended September 30, 1996. The overstatement on the Quarterly Medicaid Expenditures Report (HCFA-64) resulted in an excess claim for federal funds of \$1,580,561.

The overstated expenditures were the result of two types of errors: (1) some amounts from the accounting system were incorrectly included in the spreadsheet used to prepare the HCFA-64, and (2) the spreadsheet contained some incorrect formulas which resulted in duplication of amounts input from the accounting system. The quarter ended September 30, 1996, was the initial quarter that OMAP began using a new process for preparing the HCFA-64; thus these errors would not be a concern for prior quarters.

We were told that OMAP will return the excess federal funds claimed by reporting adjustments in a future HCFA-64.

We recommend the department's Accounting Unit, which prepares the HCFA-64 for OMAP, ensure that department staff have adequate training so that the HCFA-64 and its supporting schedules are properly prepared. We also recommend the spreadsheet used to prepare the HCFA-64 be reviewed to ensure that the formulas produce valid HCFA-64 amounts. In addition, we recommend that the HCFA-64, including the various supporting schedules, be thoroughly reviewed by the responsible manager prior to submission to the Health Care Financing Administration.

Agency Response:

We agree with the facts presented in audit finding. We are putting training and accounting controls in place to assure claims to the federal government are correct. We have corrected all formulas on spreadsheet and with completion of federal claim for quarter ending 3/31/97, we will have returned excess claim of \$1,580,561 to federal government.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JULY 1, 1995, TO JUNE 30, 1996

**OREGON DEPARTMENT OF HUMAN RESOURCES
STATE OFFICE FOR SERVICES TO CHILDREN AND FAMILIES**

96-FC-412.00-01

Family Support Payment to States—Assistance Payments

Foster Care—Title IV-E

CFDA 93.560

CFDA 93.658

The State Office for Services to Children and Families (SCF) has identified expenditures that occurred during the period April 1, 1991, to September 30, 1994, totaling \$387,667 for which reimbursement was not requested from the US Department of Health and Human Services (HHS). These expenditures were for the Title IV-A (Family Support Payments to States—Assistance Payments, CFDA 93.560) and the Title IV-E (Foster Care—Title IV-E, CFDA 93.658) programs. Regulations for these programs require that federal reimbursement be obtained within two years of the expenditure.

Payments for these programs were initially funded with state general fund dollars. Once a client has been determined as eligible, reimbursement is requested from the federal government. Claims are based upon the eligibility determination date entered into the Integrated Information Computer System (IIS) by an eligibility worker, and the IIS automatically calculates the claims for Title IV-A and Title IV-E.

Each time a change was made to the eligibility status for a client, a new eligibility date was entered into the system and the previous date was removed. Consequently, IIS incorrectly calculated eligible claims from the most recent date indicated for eligibility, and not necessarily from the actual or initial eligibility date. This resulted in eligible claims not being identified by the system within the two years allowed under federal guidelines.

As required by federal guidelines, SCF notified HHS of this oversight and has requested reimbursement for eligible claims that are more than two years old. SCF has obtained verbal approval from HHS that federal reimbursement would be granted for the above claims, if they were reviewed by the Secretary of State Audits Division and included in this report.

We recommend SCF ensure that these errors are not repeated in the future by making the necessary changes to IIS. We also recommend SCF make a claim to recover these expenditures in accordance with federal regulations.

Agency Response:

We agree with both recommendations.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JULY 1, 1995, TO JUNE 30, 1996

OREGON STATE SCHOLARSHIP COMMISSION

96-FC-575.00-01
Federal Family Education Loans
CFDA 84.032

The Oregon State Scholarship Commission (OSSC) did not complete any scheduled reviews of lenders participating in the Federal Family Education Loans program (FFELP) for the two-year period ending December 31, 1996. Federal regulations require guarantee agencies to complete comprehensive on-site program reviews of lenders participating in the FFELP every two years. OSSC had scheduled to review these lenders from June 1996 to December 1996; however, OSSC's program reviewer resigned in early June and the agency canceled all of the scheduled reviews. As of December 31, 1996, the program review position had not been filled.

We recommend that OSSC recruit for a new program reviewer and reschedule these reviews as soon as possible. OSSC should also contact the United States Department of Education for guidance concerning their noncompliance with lender program review requirements.

Agency Response:

Our recruitment for the program reviewer position closed Wednesday, March 19, 1997. I anticipate that we will have the position filled by mid-April. We will schedule the necessary reviews after the reviewer has been trained on the applicable laws and regulations regarding the program.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JULY 1, 1995, TO JUNE 30, 1996

OREGON STATE SYSTEM OF HIGHER EDUCATION

96-FC-580.XX-01

Federal Perkins Loan Program—Federal Capital Contributions

Federal Pell Grant Program

Federal Direct Student Loan Program

CFDA 84.038

CFDA 84.063

CFDA 84.268

We tested a total of 56 refunds from a population of 853 refunds. We found 18 instances of noncompliance, which totaled \$22,691. At Eastern Oregon State College (EOSC), one refund was not processed within 30 days from the date of student withdrawal. This refund and a second refund were also allocated based on a percentage allocation among the sources of federal and nonfederal funds. At Oregon Institute of Technology (OIT), Oregon State University (OSU), and Portland State University (PSU), one, two, and three refunds, respectively, were not processed within 30 days from the date of student withdrawal. At Oregon Health Sciences University (OHSU), six refunds were not processed within 30 days of the date of student withdrawal. At Southern Oregon State College (SOSC), four refunds were not processed within 30 days of the date of student withdrawal and were being allocated based on a percentage allocation among the sources of federal and nonfederal funds.

According to federal regulations, an institution shall have a fair and equitable refund policy under which the institution shall make refunds of unearned tuition fees, room and board, and other charges to a student who receives Title IV assistance. Refunds are to be made within 30 days of the withdrawal date as determined by the institution. The institutions are no longer permitted to make refunds based on a percentage allocation among the sources of federal and nonfederal funds.

At OSU, the instances of noncompliance were due to a computer program used to identify students who have withdrawn during each term. At OIT, EOSC, and SOSC, the instances of noncompliance appear to be due to clerical error. At PSU, the instances of noncompliance appear to be related to staffing and time constraints. At SOSC and EOSC, the instances related to allocation among federal and nonfederal funds were due to use of an outdated policy. At OHSU, the noncompliance appears to be due to turnover in staff. We reported a similar finding in the prior year for OSU, OIT, EOSC, and OHSU.

We recommend procedures be established to verify that financial aid refunds are calculated and processed within 30 days of the date of withdrawal for all students who withdraw. In addition, procedures to monitor changes in the regulations should be set up to ensure that the institutions are following the current requirements.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JULY 1, 1995, TO JUNE 30, 1996

Agency Response:

OSSHE concurs with the auditor's finding, and the affected institutions are taking corrective action. The following provides specifics by campus:

EOSC:

Eastern Oregon State College had not processed a student refund within 30 days from the date of the student's withdrawal. This instance of noncompliance was due to clerical error. EOSC has reviewed its student withdrawal procedures to help eliminate the reoccurrence of this error.

In addition, EOSC had made two refunds that were incorrectly based on a percentage allocation among the sources of federal and nonfederal funds. These errors resulted from the use of an outdated Department of Education policy. EOSC is now using correct refund procedures and has corrected its worksheets for refund/repayments. To preclude the reoccurrence of this finding, EOSC has improved its monitoring of ED regulations for changes by reviewing them more frequently and thoroughly.

OIT:

Oregon Institute of Technology had not processed a refund within 30 days from the date of the student's withdrawal. This instance of noncompliance was due to clerical error. To preclude the reoccurrence of this finding, OIT has improved its routing of withdrawal forms in order to provide the Business Office staff additional time to process and review refunds.

OSU:

Oregon State University had not processed two refunds within 30 days from the date of the student's withdrawal. OSU has corrected the underlying cause of these instances.

SOSC:

Southern Oregon State College had not processed four student refunds within 30 days of the dates of their withdrawal. These instances of noncompliance were due largely to SOSC's conversion to the new Direct Loan Program and related US Department of Education software at the beginning of the 1995-96 fiscal year. As part of this conversion, the routing of data communication between the Office of Business Services and the Financial Aid Office was changed, which led to the timing delays reported by the auditors.

SOSC has taken measures to eliminate the reoccurrence of this finding by (1) streamlining the data communication between the Office of Business Services and the Financial Aid Office, and (2) incorporating these revisions into its procedures.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JULY 1, 1995, TO JUNE 30, 1996

PSU:

Portland State University had not processed three refunds within 30 days from the date of the student's withdrawal. These instances of noncompliance were due to a timing delay in the cashier's office.

PSU policy calls for processing all refunds within 30 days. However, the cashier's office employee assigned this responsibility has the more immediate priority of processing add/drop activity during the first two weeks of the quarter. As a consequence, the processing of refunds does not begin until the third week of the quarter, and some refunds might not occur within the allowable time period.

To minimize the reoccurrence of this finding, PSU will provide additional resources beginning the third week of the quarter to process refunds.

OHSU:

Finding states refunds were not posted within the 30 day period. OHSU has put into place a process to ensure timely posting and issuing of refunds. Process in place as of December 1996.

96-FC-580.40-02

Federal Perkins Loan Program—Federal Capital Contribution

CFDA 84.038

Questioned Costs: \$2,025

At Southern Oregon State College (SOSC), an institutional capital contribution (ICC) of fifteen percent of the federal capital contribution (FCC) was made instead of the required one-third contribution. This resulted in the ICC being understated by \$2,025. Subsequent to year end, this amount was corrected.

Effective July 1, 1994, institutions receiving an FCC must deposit into the Federal Perkins Loan Fund an ICC equal to at least one-third of the FCC amount. This deposit must be made prior to, or at the same time as, the FCC (34 CFR 674.8 and 674.21). The institutions are notified of the current year's FCC by the Federal Perkins Loan Program official notice of funding from the US Department of Education.

SOSC personnel were unaware of the change in the ICC match rate at the time the FCC was requested and received from the Department of Education.

We recommend the institution set up procedures to monitor changes in the regulations to ensure that they are following the current requirements.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JULY 1, 1995, TO JUNE 30, 1996

Agency Response:

OSSHE concurs with the auditor's finding, and Southern Oregon State College is taking corrective action. While SOSC had understated its institutional capital contribution, it detected and corrected this error prior to issuing its FISAP.

To preclude the reoccurrence of this finding, SOSC has modified its policies to better monitor federal regulations and comply with any ICC changes on a timely basis.

96-FC-580.90-03

Federal Perkins Loan Program—Federal Capital Contributions

CFDA 84.038

Questioned Costs: \$2,100

We tested a total of 25 loans from a population of 8,100 loans. We found one instance of noncompliance, which totaled \$2,100. Portland State University (PSU) did not obtain the driver's license number for one student loan application.

Effective July 23, 1992, a student is required to provide his/her driver's license number, if any, when applying for a Federal Perkins Loan (34 CFR 674.9).

The institution was unaware of the requirement to obtain the driver's license number for Federal Perkins Loan recipients prior to fiscal year 1996-97. PSU has been obtaining driver's license numbers for Federal Perkins Loan recipients for fiscal year 1996-97.

We recommend the institution set up procedures to monitor changes in the regulations to ensure that they are following the current requirements.

Agency Response:

OSSHE concurs with the auditor's finding, and Portland State University is taking corrective action. As noted by the auditors, PSU now obtains driver's license numbers from its Perkins Loan recipients. Prior to 1995-96, PSU could refer to student driver's license numbers listed on the 'Free Application for Student Financial Aid' forms when skip tracing was required.

To minimize the reoccurrence of this type of finding, the PSU Business Affairs Office is actively staying abreast of federal regulation changes by receiving copies of 'Dear Colleagues' letters, 'Special Action Reports' from NACUBO, and the NACUBO Business Officer. PSU is also getting on several e-mail lists that focus on student financial aid issues. Finally, key Business Affairs staff will be encouraged to attend workshops and conferences on federal aid programs and regulations as resources permit.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JULY 1, 1995, TO JUNE 30, 1996

96-FC-580.18-04

Federal Pell Grant Program

CFDA 84.063

During our testing of the filing deadlines for the Institutional Payment Summary (IPS) (ED Form 255-3b) for the Federal Pell Grant Program, we noted that Oregon Institute of Technology (OIT) did not file an IPS during the period February 16, 1996, through April 15, 1996.

The IPS must be submitted periodically to the US Department of Education (34 CFR 690.83). The IPS must be filed at least once during each of the following periods for institutions with a prior year Pell authorization of at least \$750,000: July 1 - October 15; October 16 - December 15; December 16 - February 15; February 16 - April 15; April 16 - June 15; and June 16 - August 15.

The instance of noncompliance appears to be due to a clerical error.

We recommend the institution set up procedures to ensure timely filing of the IPS.

Agency Response:

OSSHE concurs with the auditor's finding, and OIT is taking corrective action. OIT had not filed its Institutional Payment Summary for the February 16 - April 15 period within the time period allowed, due to technical problems that were encountered during the transition to new software. OIT has resolved these problems and IPS reports are now being filed on schedule.

96-FC-590.00-05

Federal Perkins Loan Program—Federal Capital Contributions

CFDA 84.038

We tested 29 past-due accounts from a population of 8,722. We found three instances of noncompliance, which totaled \$1,249. At Oregon Health Sciences University (OHSU), due diligence procedures had not been performed in the current year for the collection of three past due Federal Perkins Loans.

Institutions must exercise due care and diligence in the collection of loans (34 CFR 674.32, 674.34, and Subpart C).

At OHSU, staff constraints and inadequate training have resulted in untimely due care and diligence on collecting loans. We reported a similar finding in the prior year.

We recommend due care and diligence be performed in the collection of Federal Perkins Loans. Inappropriate procedures will continue to build delinquent loans for which future recourses will not be available. The lack of collections would result in an inadequate replenishment of the loan fund balance, thereby leading to an impairment of future lending ability.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JULY 1, 1995, TO JUNE 30, 1996

Agency Response:

Finding states due care needs to be taken in collection and follow-up of student loans. On June 30, 1996, a Revenue Agent was hired and collections have begun to improve. Training and updating of the collection system is also taking place. Follow-up is done daily and appropriate actions are being taken on delinquent accounts.

96-FC-580.30-06

Geosciences

CFDA 47.050

We tested a total of 25 grants from a population of 201. We found one instance of noncompliance, which totaled \$106,890. At Oregon State University (OSU), we noted a principal investigator did not properly acknowledge the support provided by the National Science Foundation in related publications.

According to federal requirements, all subject writings published or distributed must contain an acknowledgment specifically stating that the material is supported by federal grant money.

The publication was based on a collaborative effort in which the principal investigator was a contributing member. The appropriate acknowledgment was inadvertently left out by another contributing member; however, the principal investigator accepts responsibility for the omission.

We recommend that Research Accounting remind the principal investigator directly of the requirement to acknowledge support. In addition, the Research Office may want to issue a reminder regarding proper acknowledgment of support to all principal investigators. The principal investigator has been supplied the requirements associated with the grant by both the National Science Foundation and the OSU Research Office.

Agency Response:

OSSHE concurs with the auditor's finding. At Oregon State University, the auditor noted one instance where the Principal Investigators (PIs) did not properly acknowledge in related publications the support provided by the National Science Foundation (NSF).

The OSU Assistant Director of Business Affairs contacted the PIs identified by the auditor and determined that the omission of NSF funding acknowledgment was an oversight. A researcher from another university had authored the publication in question, and the PIs in question had served as contributing editors.

The PIs are responsible for properly acknowledging their research related publications. However, OSU Business Affairs will once again remind all OSU PIs of this requirement. In addition, the OSU Research Office is including this requirement on their World Wide Web site.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JULY 1, 1995, TO JUNE 30, 1996

OREGON DEPARTMENT OF EDUCATION

96-FC-581.00-01

Title I Grants to Local Educational Agencies

CFDA 84.010

1995 Questioned Costs \$ 985

1996 Questioned Costs \$ 19,597

Federal regulations governing Title I Grants to Local Educational Agencies require the Oregon Department of Education (ODE) to reduce a school district's funding when the district does not maintain its level of effort for expenditures of state and local funds for free public education. Our review of expenditures for all school districts in 1996 found one school district whose award should have been reduced by \$19,597. Additionally, a 1995 reduction of \$985 has still not been recorded or recovered. As of November 1996, neither of these allocations had been corrected nor had ODE implemented procedures to prevent future errors of this type from occurring.

We recommend ODE implement a review process to reduce the risk of awarding incorrect grant amounts.

Agency Response:

Maintenance of Effort: The Department concurs with the finding and recommendation. The 1997-98 Title IA allocation for the Oakridge School District will be reduced by the \$19,597. These funds will be held in reserve pending challenge to the finding. If the finding is not challenged, the ODE will redistribute the funds as a part of a state reallocation plan (currently being reviewed by the US Department of Education). The submitted plan aligns with the Improving America's School Act authority given to states to redistribute unused funds to districts demonstrating greater resource needs than is provided by their basic allocation. The Department Title IA office will implement a triple review of the annual Maintenance of Effort printout effective with the 1997-98 grant awards. One review will be conducted by the Office of School Finance and Data Information Services and two by Title IA office staff (including one by the Program Coordinator).

Adjustment for Prior Year Allocation: The Department concurs with the finding. The Department will recover the \$985 from next year's (1997-98) allocation from the district (Corbett) into which the original district (Bonnevillie) merged.

96-FC-581.00-02

Migrant Education—Basic State Grant Program

CFDA 84.011

Federal regulations for the Migrant Education Program require the Oregon Department of Education (ODE) to monitor local school districts to ensure that services

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JULY 1, 1995, TO JUNE 30, 1996

provided by schools receiving funds under this program are comparable to the services provided by the district's other schools. ODE does not have any procedures in place to perform this monitoring.

We recommend ODE develop and implement procedures to ensure that school districts are in compliance with this comparability requirement.

Agency Response:

The Department concurs with the finding. In the past, the ODE has collected information in its monitoring and data collection efforts that may have met the Comparability requirement. However, a thorough and systematic procedure has not been in place. The Office of Compensatory Education (OCE) has developed and implemented procedures to ensure districts that receive Title IC funds are in compliance with Comparability Requirements. The revised "Handbook for Directors of Migrant Education Projects," Spring 1997, under Policy Guidelines, Section F, Program Management, contains an extensive explanation of Comparability, instructions for use of the Comparability worksheet and a worksheet, to be utilized by districts. The completion of the Comparability Requirement will be part of the program monitoring effort and require that districts demonstrate their buildings are comparable to others with regard to state and local spending. Date to be completed: June 1997 Comparability Procedures and Worksheet presently in place.

96-FC-581.00-03

Migrant Education—Basic State Grant Program

CFDA 84.011

For the Migrant Education Program, the Oregon Department of Education (ODE) is required to provide a report to the United States Department of Education with an unduplicated count of eligible migratory children. ODE maintains this information on a database that is continually updated. Since ODE did not retain a copy of the database on the date the report was generated, we cannot verify that the reported child counts were accurate.

We recommend ODE retain a copy of the database for the date used to generate the report.

Agency Response:

The Department concurs with this finding. The Office of Compensatory Education, in collaboration with the Migrant Education Service Center, will retain a copy of the database query and maintain required information and procedures in order to produce a report, including the date it was generated, identifying the unduplicated count of eligible migratory children to the United States Department of Education. The database query, information and procedures have been developed and

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JULY 1, 1995, TO JUNE 30, 1996

implemented. Date to be completed: February 1997. Database query, information and procedures have been developed and implemented.

96-FC-581.00-04

Migrant Education—Basic State Grant Program

CFDA 84.011

Questioned Costs \$ 215

Telephone charges of \$215 against a Migrant Education grant award were incurred after the grant award's period of availability from July 1, 1993, to September 30, 1995.

We recommend the Oregon Department of Education monitor the expenditures charged to grant awards to ensure that they were incurred during the period of availability. Any transactions incorrectly charged to the grant award should be corrected as soon as they are detected.

Agency Response:

The Department concurs with this finding. The allocation formula for paying telephone expenses is now being updated on a regular schedule, which should reduce the possibility of charging to a grant that has expired. We will also be looking at ways to incorporate system edits to prevent posting of expenditures to grants that are either fully expended or have expired. More timely review of expired grants would also make corrections of errors possible on a more timely basis.

96-FC-581.00-05

Vocational Education—Basic Grants to States

CFDA 84.048

Questioned Costs \$ 15,209

The Vocational Education grant requires the Oregon Department of Education (ODE) to spend certain minimum and maximum percentages of the grant award for specific purposes. For the July 1, 1993, to September 30, 1995, grant award, ODE did not meet three of these percentage requirements. The requirement for sex equity program expenditures was underspent by \$6,415. The requirement for programs for the incarcerated was underspent by \$674. The amount allowed for state programs and activities was exceeded by \$8,120.

We recommend ODE monitor its grant awards at least monthly to ensure compliance with any matching, level of effort, and earmarking requirements. If ODE appears to be at risk of not complying with one of these requirements, the accounting unit and program office should work together to ensure that compliance is achieved.

Agency Response:

Sex Equity Program: The Department concurs with the finding.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JULY 1, 1995, TO JUNE 30, 1996

Incarcerated Program: The Department concurs with the finding. The extenuating circumstances that caused this underspending was a late refund from one of the subgrantees which resulted in a reduction of expenditures from what was previously a compliant expenditure amount.

State Programs and Activities: The Department concurs with this finding. Procedures for the Vocational Education grant will be implemented June 1, 1997, within the Business Office and in the Office of Professional and Technical Education to ensure that all federal grant percentage requirements are monitored and met. Final reports will be reviewed by both offices before submittal to USDE to ensure accuracy and compliance.

96-FC-581.00-06

Title I Grants to Local Educational Agencies

Migrant Education—Basic State Grant Program

Special Education—Grants to States

CFDA 84.010

Questioned Costs \$ 742

CFDA 84.011

Questioned Costs \$ 110

CFDA 84.027

Questioned Costs \$ 6,674

Under the *Common Rule for Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments*, after a grant award period has expired, the Oregon Department of Education (ODE) has 90 days to liquidate any obligations incurred during the grant award period. ODE continued to charge additional expenditures against closed grant awards for up to six months after the end of the 90-day liquidation period for Migrant Education—\$110, Title I—\$742, and Special Education—\$6,674.

We recommend ODE end the practice of charging additional expenditures to closed grants after the end of the 90-day liquidation period.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JULY 1, 1995, TO JUNE 30, 1996

Agency Response:

The Department of Education concurs with this finding. The Department will be incorporating system edits to prevent overspending on grants or spending after the expiration date of a grant. Also, program staff will be directed to also closely monitor the status of their grants and not initiate charges to an expired grant. Corrective action will be fully initiated for the fiscal year 1997-98 grants.

96-FC-581.00-07

Title I Grants to Local Educational Agencies

Migrant Education—Basic State Grant Program

CFDA 84.010

CFDA 84.011

Questioned Costs \$ 87,468

The Migrant Education Program allows the Oregon Department of Education (ODE) to spend up to one percent of each grant award on administration and an additional one-half of one percent on school improvement. For the 1994 grant award, which closed September 30, 1995, ODE exceeded the administration limit by \$87,468. For both the Migrant Education and Title I programs, ODE was not able to separately identify administration and school improvement expenditures from its accounting records.

We recommend ODE monitor its grant awards at least monthly to ensure that it is in compliance with any matching, level of effort, and earmarking requirements. We also recommend ODE structure its accounting records to identify administrative and school improvement expenditures separately.

Agency Response:

The Department concurs with this finding. The Office of Compensatory Education and the Business Office have collaborated on a solution, and the Department is complying with the auditor's recommendation by establishing separate index numbers and organization codes along with separate budgets for the School Improvement one-half percent. The migrant index number is 77227, organization code is 0612. The Title IA index number is 77125, organization code is 0601. Date to be completed: This procedure was established this fiscal year for the 1996-97 grant.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JULY 1, 1995, TO JUNE 30, 1996

**OREGON DEPARTMENT OF HUMAN RESOURCES
VOCATIONAL REHABILITATION DIVISION**

96-FC-582.00-01

Rehabilitation Services—Vocational Rehabilitation Grants to States

CFDA 84.126

Questioned Costs \$553

The Department of Human Resources Vocational Rehabilitation Division (VRD) provides vocational rehabilitation services under Title I of the Rehabilitation Act of 1973, as amended, to enable individuals with disabilities to prepare for and engage in gainful employment.

Federal law and regulations for the Rehabilitation Services—Vocational Rehabilitation Grants to States program (CFDA 84.126) include the following requirements:

- The client must be determined eligible and the certification of eligibility must be dated and signed by an appropriate state unit staff member.
- The client's eligibility shall be determined within 60 days unless the individual agrees that an extension of time is warranted or an extended evaluation is required.
- An evaluation of the potential to benefit from vocational rehabilitation counseling and guidance should be provided to the client and the evaluation of each applicant must place primary emphasis upon determining the individual's potential for achieving a vocational goal.
- Upon determination that an individual is eligible for vocational rehabilitation services, an individualized written rehabilitation plan (IWRP) must be jointly developed, agreed upon, and signed by the client and counselor. It must include the views of the client concerning the client's goals, objectives, and the services being provided.
- The client must be furnished appropriate vocational rehabilitation services in accordance with the IWRP. Any amendments to the IWRP shall not take effect until agreed to and signed by the client. At a minimum, the IWRP should be reviewed with clients on an annual basis.
- Adequate documentation must be contained in the client's file including information regarding availability and use of any similar benefits to which a client is entitled.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS JULY 1, 1995, TO JUNE 30, 1996

Based on our review of 30 client files for this program, we identified the following reportable conditions that need corrective action. We reported similar conditions in our prior report.

VRD did not consistently meet the 60-day processing requirement to either determine a client's eligibility or place the applicant in extended evaluation. Six of the 29 files (21 percent) subject to the Rehabilitation Act of 1973, as amended, exceeded the 60-day requirement and did not have documentation in the files evidencing extended evaluation agreements with the clients.

VRD did not uniformly review with clients their IWRPs on an annual basis. Twenty-one of 30 files had IWRPs. Two of the 21 files (10 percent) did not contain documentation indicating annual reviews.

Not all IWRPs contained information required by law. One of 21 IWRPs (five percent) was missing the client's signature and did not have the views of the individual regarding goals, objectives, and services being provided. Another IWRP (five percent) was missing the client's signature from a plan amendment.

The primary objectives of an IWRP were not adhered to in some cases. Three of 21 files (14 percent) did not contain adequate evidence that the primary objectives of an IWRP were adhered to.

The case records in three of 30 files (10 percent) lacked documentation as required by law. One of the files did not have documentation to identify and assess other sources of funding, and one file was missing the date on the eligibility certification. Another file did not fully document actions taken by VRD to register a client for agreed upon classes.

In one of 30 (three percent) client files reviewed, we question costs of \$553 the division paid for child care, parking, and transportation when the available documentation in the case file indicated the client was not attending training. The client's IWRP indicated these items would be paid only during training.

Branch office personnel are not consistently adhering to some VRD model case documentation requirements and service timeliness goals (i.e., the 60-day requirement).

We recommend that the VRD periodically emphasize to caseworkers the ongoing model case documentation requirements and the goal of serving clients with a 60-day or less eligibility determination. VRD may choose to provide further training, reminders via staff mail or meetings, or use some other means in order to achieve greater caseworker compliance with the requirements.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JULY 1, 1995, TO JUNE 30, 1996

Agency Response:

We have reviewed the reportable conditions of noncompliance with federal regulations related to the major federal program "Rehabilitation Services - Vocational Rehabilitation Grants to States" (CFDA 84.126) that will be included in the statewide single audit report for the year ending June 30, 1996, and have prepared the following corrective action plans to the findings and recommendations:

VRD did not consistently meet the 60 day processing requirement to either determine a client's eligibility or place the applicant in extended evaluation.

We agree with this finding and fully expect staff to comply with the federal requirement to determine eligibility in a reasonable time period. We have taken appropriate actions to identify areas of noncompliance and work with managers and counselors to correct this finding. We provide managers monthly reports that identify the length of time for eligibility determination. We continue to complete administrative reviews as well as management reviews of case files, and this year we added reviews by the Internal Auditor to further stress the importance of compliance. These actions along with enhanced managerial oversight reduced the number of exceptions by 66 percent over the past five months (August to December 1996).

Later this calendar year we will be implementing an automated case management system — Oregon Rehabilitation Case Automation (ORCA). This system will include case management tools including a case load browse feature that lists actions due on cases. The on-line "actions due" list will identify daily those cases requiring an eligibility determination.

VRD did not uniformly review with clients, on an annual basis, individualized written rehabilitation plans (IWRP).

We agree with this finding and expect staff to comply with the federal requirement to review with the client the IWRP on an annual basis. We will continue to utilize the administrative, management, and internal audit reviews to improve and stress compliance. Additionally, as mentioned above, the ORCA system feature of actions due will provide an on-line list of cases that require an annual review.

Not all IWRPs contained information required by law.

We agree that these findings were an oversight (lack of signature) by the counselor. The multiple reviews (administrative, management, and internal auditor) will serve as reminders of documentation requirements. Also, the ORCA system prompts will ensure each required element of the IWRP is completed.

The primary objectives of an IWRP were not adhered to in some cases.

We agree that documentation of follow-up on the objectives of the IWRP was lacking in three case files. This is a procedural issue that we continue to stress to the counselors through management meetings and the multiple internal reviews. In addition, the ORCA system will help streamline operations and provide the necessary case management tools to ensure these procedural issues do not recur. The "actions

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JULY 1, 1995, TO JUNE 30, 1996

due” list included in ORCA will identify for the counselor the necessary follow-up or monitoring actions required on their cases.

The case records in three files lacked documentation as required by law.

We agree with the findings on these three cases and continue to stress the importance of documentation through the administrative, management, and internal audit reviews. The transition to the ORCA system will also enhance the counselors’ ability to properly document case files and ensure compliance with federal regulations.

We question costs of \$553 the division paid for child care, parking, and transportation when the available documentation in the case file indicated the client was not attending training.

We disagree with the amount of the questioned cost. The services provided by VRD (child care, parking, and transportation) are allowable costs under the Rehabilitation Act. We agree the documentation of the client’s activities and change in vocational direction was poor in this case file. The client decided to drop the training program and pursue a home-based business. Therefore, the services VRD provided during that transition time were appropriate as the client was researching the feasibility of a home-based business. Accordingly, we request that the amount of questioned cost be established at \$133.50 [one month of parking (\$61) and 5 days of child care (\$72.50) when the client was not in training or transition].

Branch office personnel are not consistently adhering to some VRD model case documentation requirements and service timeliness goals (i.e., 60-day requirement). We recommend the VRD periodically emphasize to caseworkers the ongoing model case documentation requirements and the goal of serving clients with a 60-day or less eligibility determination.

Generally we agree with the audit recommendation to emphasize the model case documentation requirements to our counselors. It should be noted that: 1) we continue to stress the importance of determining eligibility within the 60 day requirement; and 2) the addition of the ORCA system will greatly enhance our ability to serve clients and ensure compliance with the federal laws and regulations.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JULY 1, 1995, TO JUNE 30, 1996

OREGON DEPARTMENT OF TRANSPORTATION

96-FC-730.00-01
Highway Planning and Construction
CFDA 20.205

Five (50 percent) of 10 major contract change orders that we reviewed at the Department of Transportation (department) did not show evidence that oral or written Federal Highway Administration (FHWA) approval was received before their effective dates. Four of the five change orders were approved by FHWA subsequent to their effective dates. We contacted FHWA and were told the other change order would be formally approved when FHWA makes final project acceptance. Similar conditions were reported in our prior audit.

Contract change orders are issued when the department and a contractor agree to modifications of construction contracts. The Code of Federal Regulations (CFR) Section 635.120 requires that all major changes in plans and contract provisions and all major extra work shall have formal approval by the FHWA in advance of their effective dates. When emergency or unusual conditions exist, tentative advance oral approval may be given with formal approval as soon thereafter as practicable. As specified in Section 00140 of the department's Construction Manual, and in a letter dated March 22, 1990, from the FHWA, changes resulting in a net increase or decrease of \$50,000 are considered major and must be approved by FHWA before the work is begun.

We recommend the department comply with the CFR and the Construction Manual by receiving proper approval from FHWA for all major change orders before work is begun. All staff responsible for this process should be instructed to review and follow the current policies and procedures established by the department.

Agency Response:

We agree with all of the recommendations as presented.

The contracts unit has communicated with all of the staff responsible for the administration of change orders to construction contracts. They have been instructed to follow the existing policies and procedures to ensure compliance.



Secretary of State

Audits Division

Auditing for a Better Oregon

The Honorable John A. Kitzhaber
Governor of Oregon
State Capitol
Salem, Oregon 97310

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

We have audited the general-purpose financial statements of the state of Oregon as of and for the year ended June 30, 1996, and have issued our report thereon dated December 23, 1996, except for Note 18.C., as to which the date is January 17, 1997. We have also audited the state's compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated April 4, 1997.

We conducted our audits in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement and about whether the state complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audits for the year ended June 30, 1996, we considered the state's internal control in order to determine our auditing procedures for the purpose of expressing our opinions on the state's general-purpose financial statements and on its compliance with requirements applicable to major programs, and to report on the internal control in accordance with OMB Circular A-128. This report addresses our consideration of internal controls relevant to compliance with requirements applicable to federal financial assistance programs and for the purpose of expressing our opinion on the general-purpose financial statements, and not to provide an opinion on the internal control. Accordingly, we do not express such an opinion.

The management of the state is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal controls. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general-purpose financial statements

in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations with internal controls, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

For the purpose of this report, we have classified the significant internal controls, including those used to administer federal financial assistance programs, in the following categories:

Internal Control Categories

Financial

- Treasury/Financing
- Revenues/Receipts
- Purchases/Disbursements
- Financial Reporting

Federal Compliance

General Requirements

- Political Activity
- Davis-Bacon Act
- Civil Rights
- Cash Management
- Relocation Assistance and Real Property Management
- Federal Financial Reports
- Allowable Costs/Cost Principles
- Drug-Free Workplace
- Administrative Requirements

Specific Requirements

- Types of Services
- Eligibility
- Matching, Level of Effort, or Earmarking
- Reporting
- Cost Allocation
- Special Requirements, if any

Monitoring Subrecipients

- Claims for Advances and Reimbursements
- Amounts Claimed or Used for Matching

For all of the internal control categories listed above, we obtained an understanding of the design of relevant controls and determined whether they have been placed in operation, and we assessed control risk. Because of the large number of

nonmajor programs and the decentralized administration of these programs, we performed procedures to obtain an understanding of internal controls relevant to only certain nonmajor programs. Our procedures during the current year covered 41 percent of the nonmajor programs administered by the state as a whole. The nonmajor programs not covered during the current year may be subject to such procedures during future audits.

During the year ended June 30, 1996, the state expended 87 percent of its total federal financial assistance under major federal financial assistance programs.

As required by OMB Circular A-128, we performed tests of controls to evaluate the effectiveness of the design and operation of internal controls that we considered relevant to preventing or detecting material noncompliance with general requirements, specific requirements, monitoring subrecipients, claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to each of the state's major federal financial assistance programs, which are identified in the accompanying *Schedule of Federal Financial Assistance*. Our procedures were less in scope than would be necessary to render an opinion on these internal controls. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal controls that, in our judgment, could adversely affect the state's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general-purpose financial statements or to administer federal financial assistance programs in accordance with applicable laws and regulations. These conditions are described in the accompanying *Schedule of Internal Control Weaknesses*.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general-purpose financial statements being audited or the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted conditions involving the internal control and its operation that we consider to be material weaknesses as defined above. These conditions are described in the accompanying *Schedule of Internal Control Weaknesses* and are identified as material weaknesses. These conditions were considered in determining the nature, timing, and extent of the procedures to be performed in our audits of the state's general-purpose financial statements and of its compliance with requirements applicable to its major federal financial assistance programs for the year ended June 30, 1996, and this report does not affect our reports thereon dated

December 23, 1996, except for Note 18.C., as to which date is January 17, 1997, and April 4, 1997, respectively.

We also noted other immaterial matters involving the internal control and its operation that we have reported to the management of the state of Oregon during the performance of our audits.

This report is intended for the information of the management of the state of Oregon. However, this report is a matter of public record and its distribution is not limited.

OREGON AUDITS DIVISION

Sharron E. Walker, CPA, CFE
Deputy State Auditor

April 4, 1997

SCHEDULE OF INTERNAL CONTROL WEAKNESSES
JULY 1, 1995, TO JUNE 30, 1996

DEPARTMENT OF ADMINISTRATIVE SERVICES

96-IC-107.00-01
General Fund Creation
Material Weakness

The state does not record general fund financial activities in a centralized general ledger or set of accounts. Therefore, the general fund financial statements are prepared or created from several accounting systems, and the records of various state agencies and other funds. The Department of Administrative Services (DAS) has established written procedures to facilitate the process of creating a statewide general fund for the Comprehensive Annual Financial Report (CAFR). The effectiveness of this process, however, depends on timely and accurate completion of the various procedures. A significant weakness exists in this process because of the following conditions, which we also cited in our previous report.

- A reconciliation of general fund cash in the State Treasury to reported cash on the financial statements was not prepared for June 30, 1996. Consequently, material errors in general fund cash that required adjustments to the financial statements were not discovered in a timely manner. The written procedures for creating the general fund do not require the preparation of this reconciliation; however, it has been done in past years. Such a reconciliation provides assurance that material errors or omissions affecting the cash balance do not occur during the general fund creation process.
- The reconciliation to substantiate the allocation of interest and investment income to the general fund was not performed as required by written procedures. Interest and investment revenue were initially reported at \$69 million in the first edition financial statements. Contrary to approved creation procedures, this amount was derived from a Budget and Management Division report that proved to be inaccurate. Subsequent adjustments totaled approximately \$40 million.
- General fund financial statements for the year ended June 30, 1996, were first completed on December 18, 1996, with the expectation of a December 31, 1996, delivery of the CAFR. This short time frame does not provide the time necessary for an adequate review of the financial statements, including quality assurance procedures performed internally by DAS. To avoid unnecessary errors, the general fund financial statements should be completed at an earlier date.

Due to the complex creation process, the preparation of these reconciliations and the timely completion of financial statements are significant factors in determining whether reported balances are free of material errors. Furthermore, failure to prepare reconciliations and to produce general fund financial statements in a timely manner adds

to the complexity and difficulty of validating reported amounts, increasing the risk that material misstatement may go undetected. When material misstatements do occur, they require time consuming and costly revisions to the financial statements.

We recommend the systems, procedures, and process used to create and compile the general fund be comprehensively examined and updated to reflect the significant changes that have occurred and are occurring. In addition, we recommend that DAS ensure that reported amounts have been substantiated through reconciliations, and that financial statements are completed in a timely manner.

Agency Response:

The Department of Administrative Services concurs with the auditor's findings. The noted inefficiencies and weaknesses of reporting from several accounting systems and the use of "drop-in" records from agencies and other funds is one of the primary areas addressed by the implementation of the Statewide Financial Management System (SFMS). This new system provides a centralized general ledger and removes the need for much of the "creation" of the General Fund that was done in the past. The limitations of the General Fund creation process will continue until SFMS is fully implemented.

The reconciliation of General Fund cash (GAAP basis) to the State Treasury General Fund cash (legal basis), as described in the prior years' General Fund creation procedures, was not done in 1996 due to the ongoing SFMS implementation and Control Accounting System (CAS) conversion to SFMS. The Statewide Accounting and Reporting Section (SARS) discussed this matter with the CAS Manager and determined it was not practical to prepare this reconciliation in 1996. In prior years, CAS provided information to reconcile GAAP General Fund cash to legal General Fund cash by separately accounting for the special revenue fund and the GAAP basis general fund components. SFMS can also maintain separate accounting information, however, the process needs refinement. The auditors were notified of this issue early in the 1996 CAFR preparation and, as a means to help address the issue, copies of monthly analyses were provided to the auditors, which reconcile the legal General Fund cash balance in SFMS and CAS to the legal General Fund cash balance at the State Treasury.

We also agree a clearly defined and meaningful reconciliation to substantiate the balance of General Fund investment income is required. Due to the newness of SFMS, the continuing implementation of agencies to SFMS, staff turnover, and resource constraints in consideration of other critical projects, the manually prepared Control Accounting report described in prior year General Fund creation procedures was not prepared in 1996. In addition, procedures to account for investment transactions in CAS were not fully formulated or implemented in SFMS for the 1996 CAFR preparation. To support the 1996 General Fund investment income balance, a Budget and Management Division (BAM) report was used for the compilation. The BAM report was believed to be equivalent to the former Control Accounting report. SARS staff compared the pertinent information on the BAM report with the Control

Accounting reports for the three prior years, and the information matched exactly for two of the three years. However, the reported balance of General Fund investment income was adjusted later by other audit procedures to reduce the risk associated with a misstatement of amount. At this time, new procedures are under development to accurately and completely account for and report General Fund investment income. We expect to have these procedures in place for the 1997 statewide financial reporting season.

We also want the statewide General Fund financial statements to be completed much earlier than mid-December of the year being compiled. To help expedite the 1996 audit process, auditors were provided all work papers pertaining to the General Fund creation as they were completed. This helped the auditors to perform much of their audit work without final General Fund financial statements. SARS staff is currently reviewing methodology and procedures to speed up the process for producing the General Fund financial statements in future years. It should be noted that in many states, General Fund financial statements are not available until later in the subsequent fiscal year.

A key component to making improvements to General Fund accounting and financial reporting processes is the recently formed General Fund Committee. The State Controller's Division created the General Fund Committee in January 1997 to develop improved accounting procedures for the General Fund and to ensure a common understanding of the General Fund balances. The General Fund Committee consists of staff from SARS, SFMS, the Audits Division, the Office of Economic Analysis, BAM, and the State Treasury. The Committee's charge is to clarify how General Fund transactions are accounted for in SFMS and to document the processes and procedures to effectively report balances in GAAP basis financial statements. The General Fund Committee will provide all updated General Fund accounting procedures to the Audits Division for review as it makes progress toward a fully auditable and complete General Fund accounting and financial reporting methodology.

96-IC-107.00-02
Subrecipient Monitoring

The Department of Administrative Services (DAS) has established written policies to ensure compliance with requirements for monitoring subrecipients under US Office of Management and Budget (OMB) Circulars No. A-128 and A-133. These policies require each subrecipient to submit an audit report to a state agency assigned by DAS, known as the "audit agency," within 13 months of the subrecipient's fiscal year end. In addition, these policies require that audit agencies review the subrecipients' audit reports assigned to them, report the results of their reviews within 60 days, and ensure that subrecipients take appropriate and timely corrective action to resolve issues of noncompliance. We reviewed this process for subrecipient audit reports for the fiscal years ended June 30, 1994, and June 30, 1995.

By our October 1996 review, all subrecipient audit reports for fiscal years 1994 and 1995 should have been received and reviewed by the audit agencies and DAS should have been notified of the results. Necessary corrective actions for fiscal year 1994 reports should have been completed by January 31, 1996, and corrective actions for fiscal year 1995 reports should have been in progress. We found that DAS had not received audit agency review results for 156 of 362 subrecipients for fiscal year 1994, and 285 of 378 subrecipients for fiscal year 1995. Additionally, we tested seven review results reported by audit agencies and found that three subrecipients had not taken corrective action in response to audit report comments for the fiscal year ended June 30, 1994. We reported a similar finding in the prior year.

We recommend that DAS exercise more active oversight to ensure that its written policies are adhered to and effectively implemented by both audit agencies and subrecipients.

Agency Response:

We agree with the auditor's comments related to the monitoring of subrecipients under OMB circulars A-128 & A-133. While the auditors found that DAS had not received audit agency review results for 156 of 362 subrecipients in 1994 and 285 of 378 subrecipients in 1995, we can report that, subsequent to the audit review, we received 208 additional audit agency reviews. Additionally, we have contacted all of the audit agencies and requested that they complete their outstanding audit reviews for both fiscal years. We will continue our efforts to follow up with state agencies to complete their reviews of the audited subrecipient financial statements as quickly as possible.

In response to the audit finding that three subrecipients had not taken corrective action in response to audit report comments in 1994, we followed up to ensure that the responsible state agencies monitor the corrective action plans to be taken by subrecipients. DAS will continue these efforts to exercise more active oversight of the subrecipient monitoring process in accordance with DAS policies.

DEPARTMENT OF REVENUE

96-IC -150.00-01

Errors in Computing Revenue Accruals

The amount calculated by the Department of Revenue to report taxes receivable at year-end for inclusion in the Statewide Financial Reporting System (SFRS) contained several omissions and errors. As a result, taxes receivable and revenues were understated by more than \$38 million.

This misstatement was caused by errors in the formulas on the supporting summary worksheets and use of the wrong source documents. Additionally, there are no current written procedures governing the accrual process, nor is there an effective supervisory review.

We recommend an individual other than the preparer review the calculation of taxes receivable at year-end for entry in the SFRS. Written policies and procedures also need to be updated and maintained for the financial reporting process. The procedures should state the purpose of worksheets used, which worksheets are linked, how amounts are calculated, and where to gather the amounts needed to complete the spreadsheet.

Agency Response:

The accounting unit of the Finance Section will add procedures covering the computation of taxes receivable. These procedures will include documentation of the spreadsheet formulas and linked information. The Fiscal Coordinator will review the SFR input prior to submission to DAS. These policies and procedures will be updated by April 1997.

96-IC-150.00-02

Reporting of Taxes Receivable

The amount calculated by the Department of Revenue for taxes receivable at year end was not adjusted for a known error in the subsidiary records. This resulted in overstating, by more than \$220 million, the amount to be reported in the Statewide Financial Reporting System (SFRS) as taxes receivable.

The identified error was corrected on the department's internal financial statements, but was not corrected in the information submitted for inclusion in the state's financial statements.

We recommend that the accountants preparing the internal and external financial statements ensure that the reported financial data is accurate and complete.

Agency Response:

The senior accountants in the Finance Section are responsible for preparing SFR input for inclusion of general ledger and reconciliation adjustments. Our process for accumulating data will be reviewed and steps taken to improve coordination of information among the staff. The revisions will be included in the procedures by April 1997.

96-IC-150.00-03

Collection of Unemployment Tax

The Department of Revenue collects Unemployment Tax payments on behalf of the Oregon Employment Department. The laws governing this program require that payments be credited immediately to the Unemployment Trust Fund. As of June 30, 1996, the department's records showed that over \$400,000 collected in 1995 on behalf of the Employment Department had not yet been credited to the Unemployment Trust Fund.

The Department of Revenue is not certain that the amount shown on its records as due to the Employment Department is accurate. Difficulties encountered in a changeover of computer systems in the summer of 1995 have prevented the Department of Revenue from identifying the owners of funds collected during the first four months of the new system's operation. A reconciliation of system activity is underway, but the Department of Revenue estimates it will not know the amount of tax payments owed to the Employment Department until June 30, 1997.

We recommend that the Department of Revenue identify the ownership of these funds as quickly as possible. As soon as ownership is established, funds owed to the Employment Department should be credited to the Unemployment Trust Fund.

Agency Response:

The agency has agreed to dedicate an additional person to bring the reconciliation current. The reconciliation identifies amounts owed to the Employment Department. Those funds will be credited to the Unemployment Trust Fund by June 30, 1997.

OREGON STATE TREASURY

96-IC-170.00-01

Public Employes Retirement System Reporting

The Oregon State Treasury (OST)/Public Employes Retirement System (PERS) financial reporting process needs improvement. Accounting information provided by OST to PERS required further modification or more detail to be useful for financial reporting purposes. The following findings illustrate this point:

Except for cash and cash equivalents, OST classified the entire Oregon Equity Fund (OEF), and certain other portfolios, as equity investments in its accounting records. However, these portfolios included debt securities (corporate bonds, foreign bonds, convertible securities) totaling \$396.9 million, accrued interest receivable totaling \$34.0 million, accounts receivable totaling \$25.3 million, and accounts payable totaling \$24.7 million. Consequently, the Treasury overstated equity investments and understated debt securities, accrued interest receivable, and accounts receivable (less accounts payable) by \$431.6 million in its accounting records.

Additionally, OST did not make adjustments to or reclassify the portfolio amounts in information provided to PERS. To use the information in its financial reports, PERS had to perform additional accounting procedures and prepare reclassification adjustments. Investment custodians' reports provided the details PERS needed to properly reclassify the account balances. The OST should take steps to ensure that investment portfolio assets and liabilities are correctly entered on the accounting records and that sufficiently detailed information is reported to other state agencies for financial reporting purposes.

We also found that cash and cash equivalents totaling \$4.5 million were incorrectly reported as equity investments in the OEF at June 30, 1996. The Department of Administrative Services policy on cash and cash equivalents indicates that amounts a money manager is holding as cash that are not invested in equities at fiscal year end should be classified as cash and not investments for financial statement purposes, provided the account possesses the characteristics of a demand deposit account.

The OEF custodian provides detailed reports showing the composition of portfolios for each of 11 investment managers. However, only summary totals were provided for June 30, 1996, balances; therefore, the entire portfolio of one investment manager was reported as equity securities when, in fact, it included some cash. Consequently, OST and PERS understated cash and cash equivalents and overstated investments by \$4.5 million.

The rapidly developing changes in the reporting environment for government entities with investment holdings will lead to the need for additional information. For example, the changes in reporting required by the implementation of new standards,

GASB 25, GASB 28, and GASB 31, make it imperative that agencies receive accurate and detailed information from OST about their investment holdings.

The OST is required by statute to provide needed investment information that is requested by a particular agency. We agree it is the responsibility of the agency needing the financial reporting information to request it; however as the state's investment officer, the OST is more aware of any unusual investment activity that may impact a particular agency's reporting needs.

We recommend OST provide detailed reports with sufficient information to properly classify month-end balances in all equity portfolios. OST should require the custodian to provide this detailed information. This would enable OST to provide needed detail to agencies to correctly report investment balances in their financial statements and note disclosures in accordance with financial reporting standards. The OST did provide some investment information as of June 30, 1996, to state agencies and offered to provide any additional information requested.

We recommend OST establish a working group or task force of relevant state agencies including PERS to determine what information is needed by PERS for the upcoming financial reporting period and then periodically review the information for updates.

Agency Response:

We agree with your statement that it is the responsibility of the agency needing the financial information to request it, but that as the state's investment officer, we are more aware of unusual investment activity that may impact a particular agency's reporting needs. While investing is Treasury's primary area of expertise, we still strive to monitor changes in General Accepted Accounting Principles (GAAP) and their potential impact on our customers, and we believe our assistance in the past exhibits this. However, since Treasury is not the responsible reporting entity, we appropriately rely on our customers' expertise and communication to define their specific reporting needs. We will continue to work closely with our customers to identify investment related information they may need to complete timely and accurate financial statements.

Treasury has recently met, and will continue to meet, with PERS and the State Controller's office to identify PERS' needs relative to financial statement disclosure. In addition, as part of our new investment system implementation, we are meeting with PERS and other agencies to identify their current and future reporting needs. We feel that with the implementation of the new investment system and the consolidation of three custodians to one will place Treasury in a better position to meet PERS' and our other customers' information needs relative to financial reporting.

**OREGON DEPARTMENT OF HUMAN RESOURCES
DIRECTOR'S OFFICE**

96-IC-410.00-01
Information Systems Risk Assessments

The Office of Information Services (OIS), within the Department of Human Resources Director's Office, has not performed a risk assessment for the information systems which were formerly the responsibility of the Senior and Disabled Services Division and the State Office for Services to Children and Families. The Information Resources Management Division of the Department of Administrative Services requires that risk assessments be performed at least biennially. This weakness was reported in the prior audit.

This weakness increases the risk of unauthorized access to confidential data, loss of data, damage to or loss of software or hardware, issuance of unauthorized client benefits, interruption of authorized client benefits, unexpected expense to restore operations, and general disruption of agency business.

We recommend that OIS perform risk assessments of the information systems for which it is responsible at least biennially.

Agency Response:

As part of DHR's internal audit process, OIS has begun preparation of a plan for performing risk assessments of all major DHR information systems. This plan will include both a timetable for having all of these risk assessments completed by the end of the 1997-99 biennium and follow-on activities to re-do them at least biennially.

**OREGON DEPARTMENT OF HUMAN RESOURCES
ADULT AND FAMILY SERVICES DIVISION**

96-IC-461.00-01

Cash Reconciliations

The Adult and Family Services Division (AFSD) is not preparing reconciliations between the accounting records and the Treasury for its suspense cash accounts in a timely manner. As of January 1997, the latest reconciliation for suspense account 461-03 had been prepared for March 1995. The recorded balance for this account as of January 31, 1997, was a negative \$35,905,921 while the balance reported by the Treasury was a positive \$4,404,806. On June 30, 1996, the account was closed without being reconciled, in conjunction with the implementation of a new accounting system at AFSD and in an attempt to reestablish control of the account. Two new Treasury suspense accounts were established by AFSD July 1, 1996. As of January 1997, only the July 1996 reconciliation had been prepared for the new accounts. Timely reconciliations and resolution of identified reconciling items are necessary to reduce the risk of error, loss, or misappropriation.

We recommend that AFSD establish controls to ensure that all cash accounts are reconciled monthly and all reconciling items are resolved within a reasonable period of time. Additionally, AFSD should continue its efforts to reconcile suspense account 461-03.

Agency Response:

The staff in the Financial Services Section (FSS) assigned to provide accounting services for AFSD has previously been utilized to accomplish higher operational priorities which included the implementation of SFMS. FSS concurs with this finding and has established controls to ensure that all active cash accounts are reconciled and resolved in a timely manner. It should be noted that reconciliations have been completed through December 1995 for Suspense Account 461-03 (which has been a dormant account since June 30, 1996), and it is anticipated that the reconciliations through June 1996 will be accomplished by July 1997. In addition, the two new active suspense accounts (461-06 and 461-07) are essentially current since they have been reconciled through December 1996 and January 1997 respectively.

EMPLOYMENT DEPARTMENT

96-IC-471.00-01

Suspense Account Reconciliations

During our review of Employment Department reconciliations for the Trust Clearing and Benefit suspense accounts, we found that the reconciliations are not being completed in a timely manner. The Employment Department did not provide us with evidence that these reconciliations were performed monthly during the audit period. At the end of November 1996, these reconciliations were at least three months in arrears. Management has not made monthly reconciliations a priority. Timely reconciliations are necessary to reduce the risk of error, loss, or misappropriation.

We recommend the Employment Department ensure that both suspense accounts are reconciled monthly.

Agency Response:

The Department agrees that reconciliations are important and should be completed monthly. The Department's Business Services staff generally does reconcile these accounts on a monthly basis and makes their reconciliation a priority. These reconciliations were completed through June 30, 1996, and were presented to the Audits Division for its review in connection with the Department's audit for that same period. However, sometimes during peak workload periods, e.g., at the end of the fiscal year and while completing the Statewide Financial Report, there are other competing priorities that result in delays of the reconciliation balancing.

As we understand it, except for the fact that the reconciliations were not formally completed for the period July 1, 1996 to November 30, 1996, at no time was there an issue of significance. There was also no financial information that we were unable to account for during the fiscal year ending June 30, 1996 (audit period), and through the end of November 1996.

In fact, the Department's executive staff was surprised to learn of this material finding during the exit conference. Prior to this meeting, the Secretary of State's audit team had advised Employment Department staff there were no material findings. We believe the reconciliation comments should not be material findings but would more appropriately fit under the nonmaterial management advisory category. We request your reconsideration of this recommendation.

In the future, the Department will continue to make every effort to attempt to reconcile these accounts on a monthly basis.

OREGON DEPARTMENT OF TRANSPORTATION

96-IC-730.00-01

Fixed Assets

As reported in our prior audit, quarterly reconciliations of capital outlay expenditures and fixed asset records were not completed by the Oregon Department of Transportation (ODOT) for equipment, land, buildings, improvements, and construction in progress. An annual reconciliation was prepared, but not until after the end of the fiscal year. Although this condition has not been resolved, ODOT has taken the following action to resolve other previously reported fixed asset findings:

- The fixed asset subsidiary system has been updated and reconciles to the balances reported to the Statewide Financial Reporting System.
- A physical inventory of all nonexpendable property was performed.

The *Oregon Accounting Manual* (OAM) Number 01-02-00-PO Section 106 requires that agencies reconcile capital outlay expenditures to the additions in the property records quarterly. Regular reconciliations help ensure that the state's property is accounted for and classified properly, accurately, and systematically. Without timely, reliable reconciliations, errors may not be detected and corrected.

We recommend the ODOT comply with the OAM requirements. ODOT should prepare quarterly reconciliations of capital outlay expenditures to additions in the property records for all fixed asset accounts.

Agency Response:

We agree with all of the recommendations as presented.

The Accounting Operations Section currently prepares quarterly reconciliations for capital outlay to fixed assets in accordance with the Oregon Accounting Manual and they are reviewed by management.

96-IC-730.00-02

Cash Reconciliations

The Oregon Department of Transportation (ODOT) Financial Services Section reconciles cash balances recorded in the Transportation Environment and Management System (TEAMS) to the Department of Administrative Services' (DAS) Control Accounting accounts. We reviewed reconciliations for 19 different cash accounts and, except for cash account 012000, found that the cash reconciliations were not prepared timely. For example, reconciliations for the months July 1995 through November 1995 were combined into one reconciliation and not completed until sometime after the end of November 1995. We were unable to determine the exact date the reconciliations were

completed because the preparer did not initial and date the reconciliations. Also, there was no evidence of review and approval by the Operations Manager. Similar conditions were also reported in our prior audit. Other previously reported cash findings have been resolved by ODOT taking the following actions:

- The Highway Cash Account (09000) has been successfully reconciled to DAS Control Accounting.
- Reconciling items outstanding for more than a year have been resolved.

Reconciliations of cash accounts with the related accounting records provide assurance that cash transactions have been recorded accurately. Without timely, reliable reconciliations, errors may not be detected and corrected. Management review and approval helps ensure the reconciliations are completed properly.

We recommend that ODOT, through supervisory reviews, ensure cash reconciliations are performed as soon after month end as practical (one to two months). The supervisory review and approval should be performed timely and be documented by initials and date.

Agency Response:

We agree with all of the recommendations as presented.

All cash and limitation reconciliations are completed within 45 days after the end of the month and are reviewed by management.

SUMMARY OF OTHER MATERIAL AUDIT FINDINGS

JULY 1, 1995, TO JUNE 30, 1996

SUMMARY OF OTHER MATERIAL AUDIT FINDINGS
JULY 1, 1995, TO JUNE 30, 1996

STATE AGENCY Oregon Department of Human Resources — Fairview Training Center

AUDIT ORGANIZATION Oregon Secretary of State — Audits Division

PROGRAM TITLE Medicaid

REPORT DATE May 8, 1996; Report No. 96-17

FINDING The Oregon Audits Division recently received an allegation that SmithKline Beecham Clinical Laboratories (SBCL) was overbilling the Fairview Training Center. Our review determined that transportation costs are not allowable by Medicaid and that SBCL did bill \$27.13 per resident in transportation costs to Medicaid (via the Office of Medical Assistance Programs [OMAP]). However, we found that OMAP's Medicaid Management Information System properly disallowed payment for these billings.

Other matters arose, however, while investigating the allegation. Specifically, we found that SBCL billed Medicaid for laboratory services at rates that exceeded those included in its contract with Fairview and other state agencies; this practice appears to be a violation of the OMAP General Rules regarding usual charges. We also found that Fairview overpaid SBCL for some tests billed directly to Fairview and paid significantly more than other state agencies for tests that were not included in Fairview's contract. In addition, by comparing SBCL contracts for clinical laboratory services with Fairview, the Oregon State Hospital, and the Department of Corrections, we determined that SBCL has not honored the guaranteed lowest price provision in the Oregon State Hospital contract. Finally, the report includes some general observations regarding contracting for clinical laboratory services by Fairview.

STATE AGENCY Oregon Department of Human Resources — Office of Medical Assistance Programs

AUDIT ORGANIZATION Oregon Secretary of State — Audits Division

PROGRAM TITLE Medicaid (Provider Postpayment Reviews)

REPORT DATE December 5, 1996; Report No. 96-55

FINDING The Department of Human Resources' Office of Medical Assistance Programs (office) can more effectively identify and recover overpayments to providers of Medicaid services. In 1994 and 1995, Medicaid expenditures in Oregon totaled \$2.67 billion. Of this amount, \$676 million was paid to providers of medical services on a fee-for-service basis; that is, the providers submit bills to the office for reimbursement. While the office's Provider Audit Group (audit group) is responsible for

SUMMARY OF OTHER MATERIAL AUDIT FINDINGS
JULY 1, 1995, TO JUNE 30, 1996

conducting postpayment reviews to ensure that fee-for-service providers are reimbursed at appropriate rates, it has not conducted a sufficient number of reviews, it does not know the extent of inappropriate billings, and it has not taken action against many providers who have been overpaid.

The office can better ensure that providers deliver the services for which they bill and ensure that the services to recipients are medically necessary by improving the effectiveness of the audit group. The audit group has not conducted the minimum number of reviews required by the federal government. During three quarters when the office's automated system was inoperable, the office opened only ten cases (reviews), well below the minimum federal requirement of approximately 300 cases. The audit group has had diminishing success at identifying providers who are inappropriately billing for services because it has been understaffed and has not had the automated system support necessary to identify providers who should be reviewed.

These issues are not new. In 1990, we released an audit report that found the department needed to improve its monitoring of providers of Medicaid services. While the Medicaid program in Oregon has undergone a number of changes, the fee-for-services portion still represents a large expenditure (about \$22 million per month) and continues to need effective oversight.

The office can also improve the effectiveness of its management and collection of provider overpayment receivables. The office has not emphasized the collection of Medicaid provider overpayments and lacks a structured collection process for delinquent accounts.

Finally, the Department of Human Resources needs to improve its reporting to the Health Care Financing Administration of provider overpayments and subsequent adjustments to the overpayment balances. Our review determined that errors in preparing a supporting schedule for the Quarterly Medicaid Expenditures Report resulted in the department claiming an excess of \$4.8 million in federal funding.

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