

# Secretary of State Audit Report

Kate Brown, Secretary of State

Gary Blackmer, Director, Audits Division



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## Summary: Statewide Single Audit, Fiscal Year 2012

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### Overview of Findings and Auditor's Opinions

This report summarizes the results of our financial and compliance audit of the State of Oregon for the fiscal year ending June 30, 2012.

#### ***Financial statements***

- The State's financial statements included \$30.8 billion in total assets and \$22.8 billion in total expenses.
- We issued an unqualified opinion, which means the State's financial statements fairly presented the State's financial position, financial operations, and cash flows in conformance with generally accepted accounting principles.
- We identified 7 weaknesses related to financial reporting controls and 41 adjustments to correct financial reporting errors.

#### ***Federal programs***

- The State expended about \$10.2 billion in federal funds in fiscal year 2012, with the Medicaid program the largest at about \$3.1 billion.
- We identified 46 internal control issues related to the State's compliance with requirements for major federal programs.

Refer to Secretary of State, Audits Division website for the fiscal year 2012 audit of the State's financial statements and the Single Audit Report

[www.sos.state.or.us/audits/pages/state\\_audits/full/2012/2012-34.pdf](http://www.sos.state.or.us/audits/pages/state_audits/full/2012/2012-34.pdf)

[www.sos.state.or.us/audits/pages/state\\_audits/full/2013/2013-07.pdf](http://www.sos.state.or.us/audits/pages/state_audits/full/2013/2013-07.pdf)

## Authority, Purpose, and Scope

The State of Oregon's management is responsible for preparing annual financial statements, preparing a schedule of expenditures of federal awards, maintaining effective internal controls, and being accountable to the citizens of Oregon for its use of public monies. The Secretary of State Audits Division audits the State's financial statements, schedule of federal awards, and major federal programs on an annual basis. We conduct the annual statewide single audit, which is required by the federal government for Oregon to continue to receive federal financial assistance. The purpose of the fiscal year 2012 audit was to:

- Determine if the amounts reported in the State of Oregon's financial statements were materially correct and adequately supported;
- Review internal accounting and compliance control procedures;
- Determine whether the Schedule of Expenditures of Federal Awards (SEFA) is presented fairly in relation to the State's financial statements; and
- Evaluate the State's major federal programs for compliance with applicable laws, rules, and regulations.

## Overview of the Financial Statement Audit

The State of Oregon's management is responsible for preparing the comprehensive annual financial report (CAFR), which includes the financial statements and related note disclosures for the State. The financial statements provide a comprehensive view of the State's financial activities during the fiscal year (Statement of Activities) and an overall picture of the State's financial position at the end of the fiscal year (Statement of Net Assets). The management of each state agency is responsible for maintaining effective internal controls over financial reporting and ensuring financial information is complete and accurate. Statewide Accounting and Reporting Services (SARS), part of the Department of Administrative Services, is responsible for preparing the CAFR in accordance with generally accepted accounting principles, which are numerous and complex. SARS prepares the CAFR by providing guidance and training to agency staff throughout the year, compiling financial information from more than 100 state agencies, and making numerous accounting adjustments to ensure amounts are properly reported.

The Audits Division is responsible for expressing an opinion on the State's financial statements. We conduct our work following *Government Auditing Standards* applicable to financial audits, which require that we plan and perform the work to obtain reasonable assurance about whether the financial statements are materially correct. The work includes examining evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant

estimates made by state management, as well as evaluating whether the financial statements are presented properly. For fiscal year 2012 we reviewed the state's accounts and identified 41 errors totaling \$672 million. We also reported 7 internal control weaknesses in financial reporting.

In our audit opinion dated December 18, 2012, we concluded that the adjusted financial statements for the State of Oregon presented fairly, in all material respects, the financial position and activities of the State for the fiscal year ended June 30, 2012. The Department of Administrative Services published our audit opinion as part of the CAFR for fiscal year 2012.

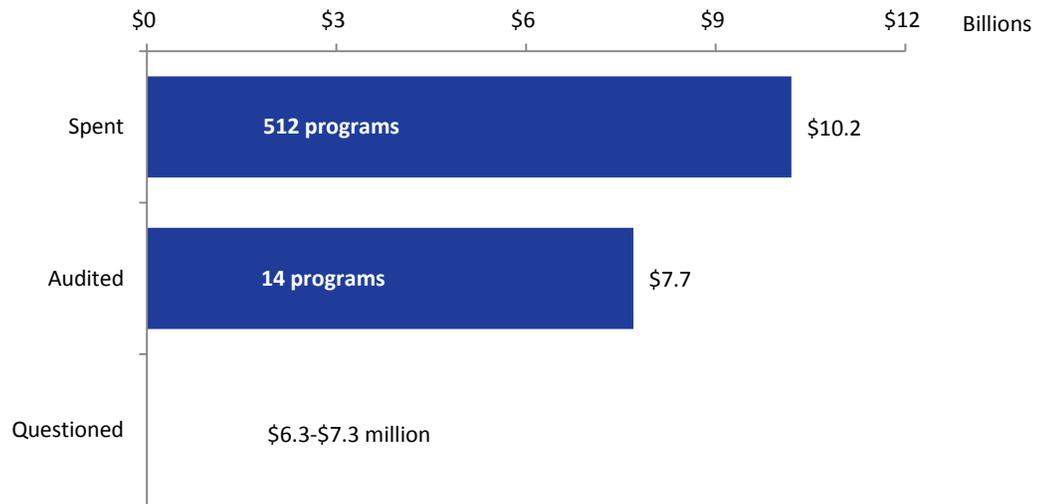
**Figure 1: Condensed Statement of Net Assets and Activities, Fiscal Year 2012**

<b>Condensed Statement of Net Assets</b>		<b>Condensed Statement of Activities</b>	
Governmental and Business-type Activities		Governmental and Business-type Activities	
As of June 30, 2012 (in millions)		As of June 30, 2012 (in millions)	
<b>Assets</b>		<b>Program Revenues</b>	
Cash and Investments	\$ 8,207	Governmental activities	\$ 8,864
Receivables	5,413	Business-type activities	6,056
Capital assets, net of depreciation	15,238	<b>General Revenues</b>	
Other assets	<u>1,931</u>	Governmental activities	8,738
Total Assets	30,789	Business-type activities	<u>(109)</u>
<b>Liabilities</b>		Total revenues	23,549
Long-term debt	10,792	<b>Expenses</b>	
Other liabilities	<u>4,137</u>	Governmental activities	17,258
Total liabilities	14,929	Business-type activities	<u>5,542</u>
<b>Net Assets</b>		Total expenses	<u>22,800</u>
Invested in capital assets, net of related debt	10,271	Increase in Net Assets	749
Restricted	3,650	Net assets - beginning	<u>15,111</u>
Unrestricted	<u>1,939</u>	Net assets - ending	<u>\$15,860</u>
Total Net Assets	<u>\$15,860</u>		

## Overview of the Single Audit

The Secretary of State Audits Division is also responsible for performing the annual statewide single audit, which is required by the federal government, in order for the State to continue to receive federal financial assistance. The audit's objective is to determine Oregon's compliance with federal requirements for how those funds were used. We followed the U.S. Office of Management and Budget's *Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations*, and the *Government Auditing Standards* in performing our audit work.

**Figure 2: Results of Fiscal Year 2012 Single Audit**

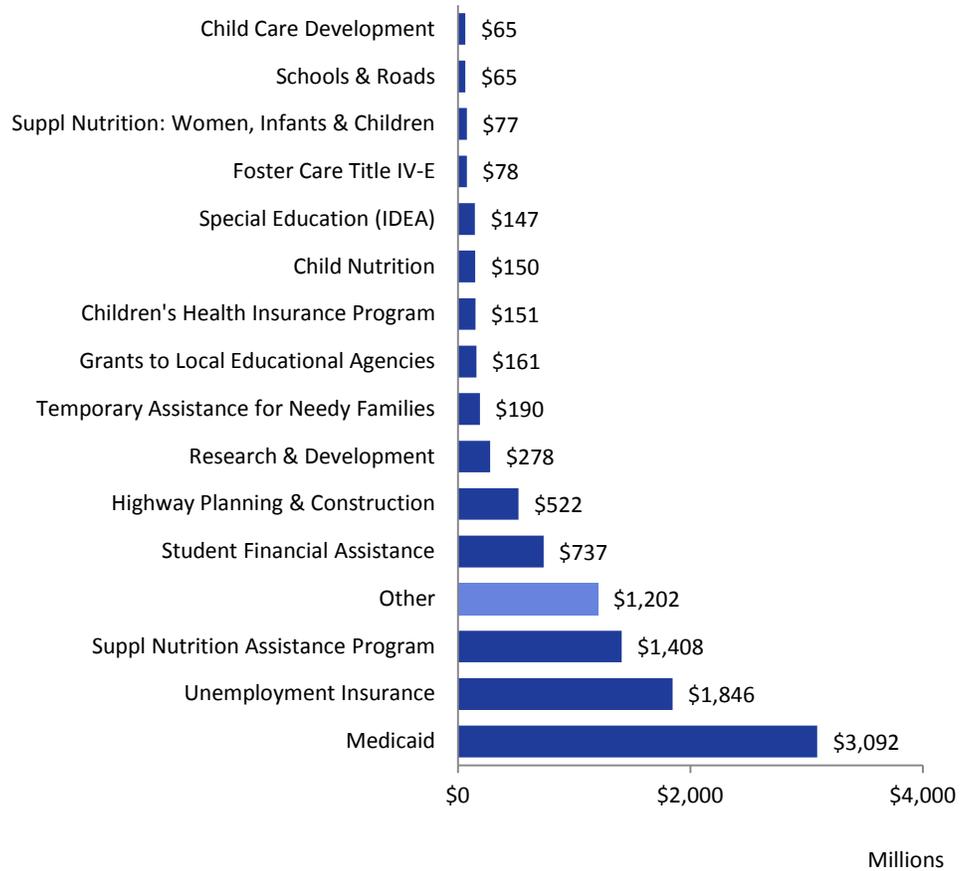


In fiscal year 2012 Oregon spent approximately \$10.2 billion in federal cash and noncash assistance, such as immunization vaccines and food, for 512 programs administered by 45 state agencies. Applying procedures dictated by the federal government, we selected 14 programs to audit that are considered to be at the highest risk of misusing funds. These programs were administered by 7 state agencies and totaled \$7.7 billion in federal funds. This accounts for 76% of federally awarded funds to Oregon. We reported 34 new findings and 12 prior findings not yet corrected related to Oregon's compliance with federal requirements. We questioned whether Oregon's spending of approximately \$6.3-7.3 million was appropriate under federal program rules.

**Federal expenditures by federal program for fiscal year 2012**

Fifteen of the 512 federal programs administered by the State of Oregon accounted for 88% of the State’s total federal expenditures in fiscal year 2012. Federal expenditures for the Medicaid program alone were \$3.1 billion or 30% of total federal expenditures. The Other category, shown in figure 3, combines 497 federal programs, each with expenditures less than \$50 million.

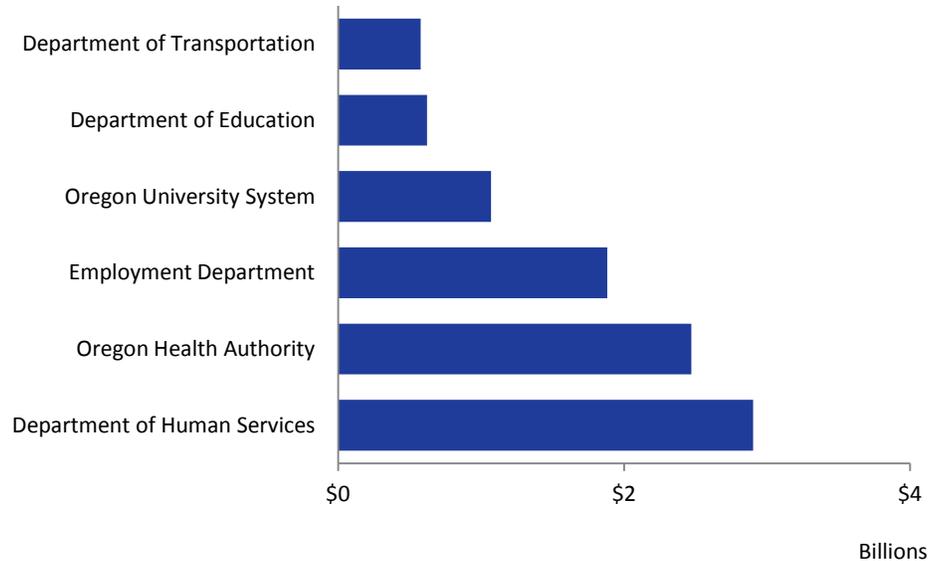
**Figure 3: Total Federal Expenditures by Federal Program, Fiscal Year 2012**



**Federal expenditures by state agency for fiscal year 2012**

Federal funds were expended by 45 state agencies during fiscal year 2012. Six of the 45 agencies accounted \$9.5 billion or 94% of federal expenditures. The Department of Human Services and the Oregon Health Authority began operating as two separate agencies during fiscal year 2012. However, many of their functions are performed by a shared services arrangement. Combined, the two agencies accounted for \$5.4 billion, or 53%, of federal expenditures.

**Figure 4: Total Federal Expenditures by State Agency, Fiscal Year 2012**



**Federal findings**

In accordance with federal requirements, we determine which federal programs to audit each fiscal year. For fiscal year 2012, we audited 14 federal programs and issued 34 findings as a result of our audit work. In addition to these findings, 12 findings remained uncorrected from the audits of the prior two years for a total of 46 current findings.

We write audit findings when we determine that an agency did not comply with federal laws and regulations and when we identify weaknesses in internal controls. Weak internal controls are reported when we identify deficiencies in the design, implementation, or operation of the policies and procedures necessary to protect state and federal funds and ensure compliance with regulations and laws. Findings can also include questioned costs when we identify spending that may not have been in compliance with the federal grant, are not supported by adequate documentation, or do not appear reasonable. It is the auditor’s job to question costs that do not adhere to federal requirements, but it is the job of the federal agency that awarded the funds to determine whether they will allow the costs or require repayment to the federal government.

**Figure 5: 2012 Findings by Federal Program**

<b>Federal Program</b>	<b>Number of 2012 Findings</b>	<b>Federal Program Expenditures</b>
Low-Income Home Energy Assistance	9	\$ 36,490,145
Medicaid	7	3,091,501,803
Community Services Block Grant	6	5,144,985
Unspecified*	4	
Foster Care Title IV-E	4	77,865,491
Temporary Assistance for Needy Families	4	189,710,103
Unemployment Insurance	4	1,846,038,085
Weatherization Assistance for Low-Income Persons	3	19,980,638
Child Nutrition	2	150,245,827
Child and Adult Care Food	2	32,169,394
State Planning and Establishment Grants for the Affordable Care Act Exchanges	2	12,636,828
Supplemental Nutrition Program	1	1,407,508,932
National Guard Military O&M	1	30,816,663

\*Unspecified refers to findings related to the cost allocation plan impacting various agencies.

Note: Some findings pertain to multiple programs and therefore are counted more than once

As a result of our single audit for fiscal year 2012, we reported 34 findings pertaining to federal programs displayed by agency in figure 6.

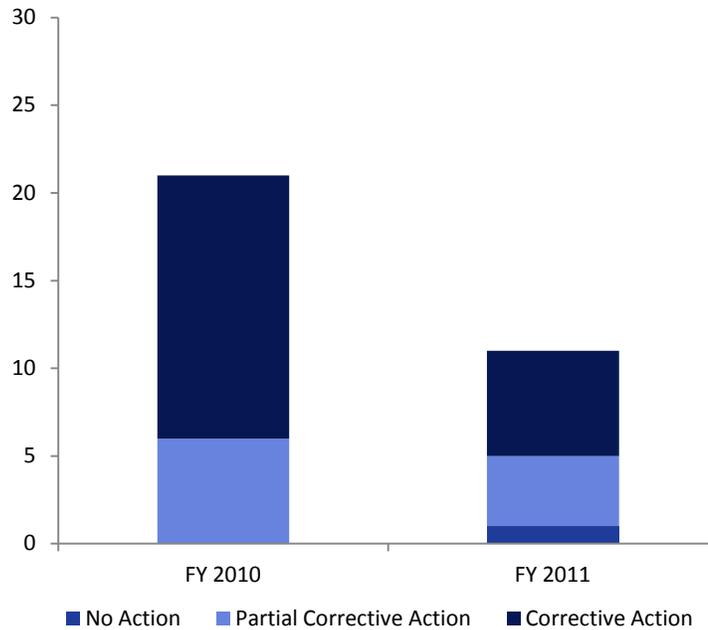
**Figure 6: 2012 Findings & Questioned Costs by State Agency**

<b>State Agency</b>	<b>Number of 2012 Findings</b>	<b>Questioned Costs</b>
Department of Human Services	6	\$1,703,203
Oregon Health Authority	1	-
Department of Human Services / Oregon Health Authority	7	1,474,817
Oregon Housing Department	9	-
Employment Department	4	267,748
Oregon Military Department	1	-
Oregon Department of Education	2	311,597
Department of Administrative Services	4	2.5 - 3.5 million
	<b>34</b>	<b>\$6.3 - \$7.3 million</b>

### **Corrective action taken on federal findings**

Audit findings include recommendations that address noncompliance and internal control weaknesses. In response to audit findings and recommendations, state agencies must design a corrective action plan to submit to the federal awarding agency. Federal agencies issue a decision on the findings including the questioned costs the state will be required to repay. During future audit periods, we are required to determine whether agencies have taken corrective, partial, or no action. Figure 7 shows the action taken to correct findings as of March 2013. The findings with partial corrective actions are largely programs administered by the Department of Human Services. The FY 2011 finding with no corrective action pertains to a program administered by the Oregon Housing Department.

**Figure 7: Corrective Action Taken on Prior Year Federal Findings**



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## About the Secretary of State Audits Division

The Oregon Constitution provides that the Secretary of State shall be, by virtue of her office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

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### Audit Team

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This report, a public record, is intended to promote the best possible management of public resources. Copies may be obtained from:

website: <http://www.sos.state.or.us/audits/>

phone: 503-986-2255

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Salem, Oregon 97310

The courtesies and cooperation extended by officials and employees of the State of Oregon during the course of the Statewide Single audit for fiscal year 2012 were commendable and sincerely appreciated.