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*Auditing for a Better Oregon*

January 21, 2004

Cam Preus-Braly, Commissioner  
Department of Community Colleges and  
Workforce Development  
255 Capitol Street NE, Third Floor  
Salem, Oregon 97310

Dear Ms. Preus-Braly

The statewide single audit that included selected federal awards at Department of Community Colleges and Workforce Development (CCWD) for the year ended June 30, 2003, has been completed.

This statewide single audit work is not a comprehensive audit of your federal awards. Instead, this single audit permits us to report on the state's internal control and the state's compliance with laws, regulations, and the provisions of contracts or grant agreements, which could have a direct and material effect on each major federal program. Regular audits of CCWD will continue on a periodic basis.

We determined whether the CCWD substantially complied with the federal requirements relevant to the following federal program.

CFDA Number	Program Name	Audit Amount
17.258	WIA Adult Program	13,420,675
17.259	WIA Youth Activities	13,863,006
17.260	WIA Dislocated Workers	31,900,193
	Total Expenditures	\$ 59,183,874

Based on our audit, we identified certain condition(s) needing corrective action. Our finding(s) and recommendations are presented in the enclosed Audit Findings and Recommendations Summary accompanying this letter.

The reportable condition[s], along with your response[s], will be included in our statewide audit report. Including your response[s] with responses from other state agencies satisfies the federal requirement that

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Management Letter No: 586-2004-01-01

management prepare a Corrective Action Plan (CAP) covering all reported audit findings. Satisfying the federal requirement in this manner, however, can only be accomplished if the response to each finding includes the information specified by the federal requirement, and only if the response[s] is [are] received in time to be included in the audit report. The following information is required for each response.

- 1) Your agreement or disagreement with the finding. If you do not agree with an audit finding or believe corrective action is not required, include in your response an explanation and specific reasons for your position.
- 2) The corrective action planned.
- 3) The anticipated completion date.
- 4) The name(s) of the contact person(s) responsible for corrective action.

The other conditions are issues of lesser significance that we wanted to communicate to agency management. These conditions do not require a Corrective Action Plan. We will follow up on CCWD's progress in addressing these issues during the next fiscal year audit.

For the reportable conditions, we must receive your written response by January 30, 2003 for them to be included in the final audit report.

Should you have any questions, feel free to contact Debbie Ferguson or me at (503) 986-2255.

Sincerely,  
OREGON AUDITS DIVISION

Jason M. Stanley, CPA  
Audit Administrator

JMS:jas

cc: Judy Siegel, Finance and Administration Team Manager  
Gary Weeks, Director, Department of Administrative Services

**Audit Findings and Recommendations Summary  
Department of Community Colleges and Workforce Development  
State Fiscal Year 2003**

**REPORTABLE CONDITIONS**

The following conditions will require a corrective action response from management.

Cash Management Authorizations

Of the 40 items selected for testing, we found 7 items that did not have sufficient authorization and/or review signatures. According to OMB Circular A-133, cash management activities should have an appropriate level of supervisory review prior to disbursement of federal funds. Without proper authorization, payments may be paid on transactions containing errors or misappropriate expenditures.

**We recommend** CCWD improve controls over transaction authorization and supervisory review.

Reporting/Earmarking

During our review, we could not verify that amounts reported for Statewide Activities and Emergency and Rapid Response were for the correct program period as reported on federal forms. We also noted that amounts recorded in the reports were not adequately supporting by accounting records (SFMA).

According to the OMB Compliance Supplement, expenditures should be accurately reported on federal forms in order to meet the federal reporting requirements. In addition, expenditures should also be in compliance with the minimum earmarking requirements as established for the federal program.

CCWD does not have in place a system to accurately track federal expenditures and determine whether expenditures are being reported in the correct grant period. In addition, there is no reconciliation between amounts in the federal reports and the accounting system (SFMA). Even though CCWD has made efforts to properly track expenditures, they were not in compliance during our audit period.

**We recommend** that CCWD continue its efforts to correct the accounting system and revise federal reports to accurately reflect program expenditures. We also recommend that CCWD continue to work with subrecipients to correct errors in reported amounts.

**OTHER CONDITIONS**

The following are other conditions of lesser significance that should be brought to management's attention. These issues do not require a corrective action response, however, we will follow up on these issues during the next fiscal year audit.

### Sub-recipient Monitoring

During our review we found that one subrecipient had received an adverse audit and we could not determine where CCWD had noted this information during the monitoring process. Findings included lack of proper authorization for cash disbursements, lack of documentation supporting expenditures, inadequate documentation to support program costs, ineligible participants receiving services, unapproved capital outlay expenditures, costs charged to improper periods, not enough disadvantage youth receiving services and lack of documentation for procurement process. Due to the "widespread nature" of the findings, the independent auditors could not determine questioned costs.

Documentation disclosed that CCWD had conducted an on-site visit of the subrecipient in May of 2002. However, CCWD review did not disclose any deficiencies in the areas mentioned in the independent auditor's report. Inadequate monitoring of subrecipients could result in the inappropriate use of federal funds.

We recommend that CCWD evaluate its sub-recipient monitoring system to ensure that it includes the appropriate level of oversight to all entities that receive WIA funding. We also recommend that CCWD continue its efforts to develop and improve their monitoring process and procedures to assure entities receiving WIA funds adequately comply with applicable laws and regulations.

### Segregation of Functions

During our review of expenditure transactions, we noted that the fiscal analyst has the ability to initiate, edit, review, and authorize federal draws.

Even though the fiscal analyst did not generate any draws during fiscal year 2003, management should establish appropriate controls over the approval of draws in order to comply with federal cash management requirements. In addition, state policy states that control activities should include segregation of duties for authorization, recordkeeping, and custody of the related assets to reduce the opportunities for any individual to be in the position to both perpetrate and conceal errors or fraud in the normal course of duties (OAM 10.10.00.PR.111).

We recommend that CCWD establish adequate segregation of duties over initiating, editing, reviewing, and authorizing federal draws.