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Secretary of State

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February 5, 2007

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

Dear Ms. Preus-Braly:

The statewide single audit that included selected federal awards at the Department of Community Colleges and Workforce Development (department) for the year ended June 30, 2006, 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 that could have a direct and material effect on each major federal program. Regular audits of the department will continue on a periodic basis.

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

CFDA Number	Program Name	Audit Amount
17.258, 17.259, 17.260	Workforce Investment Act	\$60,635,312

Based on our audit, we identified certain conditions needing corrective action. Our findings and recommendations are presented in the enclosed Audit Findings and Recommendations Summary accompanying this letter.

The reportable conditions, along with your responses, will be included in our Statewide Single Audit report. Including your responses with responses from other state agencies satisfies the federal requirement that 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 responses 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 the department's progress in addressing these issues during the next fiscal year audit.

For the reportable conditions, we must receive your written responses by February 13, 2007, for them to be included in the Statewide Single Audit report.

Should you have any questions, please contact Geoff Hill or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Kelly L. Olson, CPA
Audit Manager

KLO:brk

cc: Traci Cooper, Finance and Administration Team Manager
Mark Neeley, Internal Auditor
Lindsay Ball, Director, Department of Administrative Services

Audit Findings and Recommendations Summary Community Colleges and Workforce Development State Fiscal Year 2006

REPORTABLE CONDITIONS

Questioned Costs

In reviewing a sample of 14 direct expenditures, not including department payroll expenses, we found one instance in which an employee was provided with five days of meal and lodging per diems while the actual travel was for only four days. The employee was actually paid twice for the same day on travel status. OMB Circular A-133 requires that federal funds only be used for allowable activities. The overpayments resulted in questioned costs of \$171. When projected to the total direct expenditures by the department, excluding payroll, the projected questioned costs were greater than \$10,000.

We recommend the department take the necessary steps to recover the questioned travel reimbursements. We also recommend the department ensure that all expenditures are adequately reviewed.

Unsupported Cost Allocation Plan

In administering multiple federal and state programs, the department regularly purchases goods to benefit multiple programs, such as paper, office supplies and printers. The OMB Circular A-133 Compliance Supplement states that it is allowable to use federal funds for a portion of those purchases, as long a reasonable basis is used to allocate costs. During our audit, we identified three of 14 transactions using federal funds that were allocated among different federal and state programs. However, the department had not documented its basis for allocating the costs and the department was not able to recalculate or verify the accuracy of the rates actually used for allocating the costs. Subsequent to our audit period, the department implemented a written cost allocation plan.

We recommend the department ensure it maintains adequate documentation to support its methodology and calculations for allocating costs and expenditures among different federal and state programs.

Cash Management

For the Workforce Investment Act, federal funds are provided on a reimbursement basis after the expenditures are made. The same basis is used whether the department spends the money directly, or if the subrecipients of the program make the expenditures on behalf of the program. During our testing, we reviewed 22 requests for reimbursement by subrecipients. In two of the requests we noted mathematical and/or formula errors in the forms submitted by the subrecipients that resulted in reimbursement requests exceeding expenditures by \$151,705 and \$50,000. The errors were not detected by the department during its review of the subrecipient documentation. As a result, the department requested more in federal funds than was necessary and appropriate.

We recommend the department thoroughly review the requests for federal funds and ensure that requests for federal funds are adequately supported, and the requests agree to expenditures already made.

OTHER CONDITIONS

Monitoring of Subrecipient Audit Reports

The department was assigned responsibility to complete the review of single audit reports in accordance with OMB Circular A-133 for 13 subrecipients who received federal funds from the State of Oregon. Specific responsibilities and requirements for the review of the single audit reports are included in the Oregon Accounting Manual. The department was required to notify its assigned subrecipients, identifying differences in amounts or omission of grants on the subrecipient's Schedule of Expenditures of Federal Awards to amounts reported by the state agencies, and to determine the cause for material differences.

We reviewed the department's monitoring for seven subrecipient audit reports. We found that none of the seven subrecipients in our sample had been notified that the department was the audit agency for the year. We also found that the department identified material differences and compiled a list of differences and forwarded it to the state agency awarding the funds. The department, however, performed no additional follow up to resolve the differences.

We recommend the department ensure that subrecipients assigned for monitoring be notified that the department is the audit agency and the purpose of that assignment under the provisions of OMB Circular A-133. We also recommend the department ensure personnel assigned to review subrecipient reports investigate and resolve all material differences identified.

Reporting

As a recipient of Workforce Investment Act funds, the department has specific financial and performance reporting requirements in accordance with OMB Circular A-133. The establishment of adequate internal controls provides assurance that reports submitted by the department are valid and can be verified in accordance with federal regulations and requirements.

During our audit, we found the department had not fully complied with federal reporting requirements, and we identified areas where the department could improve internal controls over reporting. Specifically, we noted:

- A lack of documentation for management's review of financial and performance reports prior to submission to the federal government;
- Unreported performance data for exiting self-service adults; and
- Manual entry errors into the federal online reporting form for performance measures.

While we have noted recent efforts by the department to submit all performance data required and strengthen financial reporting processes, the department should continue to strengthen the internal controls in order to reduce the risk of incorrect reporting to the federal government.

We recommend the department ensure that financial and performance reports are appropriately reviewed and agreed to supporting documentation prior to submission the federal government. Additionally, we recommend that the department continue their efforts to gather and maintain relevant data to support the federal reporting requirements.