

**Office of the Secretary of State**

Bill Bradbury  
Secretary of State

Jean Straight  
Deputy Secretary of State



**Audits Division**

Charles A. Hibner, CPA  
Director

255 Capitol Street NE, Suite 500  
Salem, OR 97310

(503) 986-2255

**fax** (503) 378-6767

March 10, 2008

Linda Mock, Director  
Oregon Commission for the Blind  
535 SE 12th Avenue  
Portland, OR 97214-2488

Dear Ms. Mock:

We have completed the statewide single audit that included a selected federal program at the Oregon Commission for the Blind (commission) for the year ended June 30, 2007.

This audit work is not a comprehensive audit of your federal program. Instead, the audit work performed allowed us, in part, to achieve the following objectives: (1) determine whether the state has complied with laws, regulations, contracts or grants that could have a direct and material effect on the federal program; and (2) determine whether the state has effective internal controls over compliance with the laws, regulations, contracts and grants applicable to the federal program.

We audited the following federal program at the commission to determine whether the commission substantially complied with the federal requirements relevant to the federal program. Our audit does not provide a legal determination of the commission's compliance with those requirements. The results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133.

<u>CFDA Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	\$5,965,306

In planning and performing our audit, we considered the commission's internal control over compliance with requirements that could have a direct and material effect on the federal program in order to determine our auditing procedures for the purpose of expressing our opinion on the commission's compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the commission's internal control over compliance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control. As discussed below, we identified seven significant deficiencies, four of which we consider to be material weaknesses. These deficiencies and the related instances of non-compliance are required to be reported in accordance with OMB Circular A-133.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

**Eligibility**

**Material Weakness**

**Questioned Costs \$18,320**

Federal regulations governing the vocational rehabilitation grant requires the Oregon Commission for the Blind (commission) to provide services to individuals who are blind as defined by the state plan and state law. The state's definition of a blind person addresses requirements for visual acuity and field of vision. The state law also includes a definition of "visually impaired individuals" to include individuals who have conditions that might lead to blindness. The commission's administrative rules for vocational rehabilitation include a definition of blindness that requires a client to be diagnosed by a qualified physician to have a medical condition which results in vision worse than the requirements for either visual acuity or field of vision. Although the state law defines visually impaired individuals, they are not included in the commission's vocational rehabilitation rules.

Of the 40 randomly and 8 judgmentally selected case files reviewed, the commission provided services to five clients who did not meet the above definition of a blind person. In three cases, a doctor had diagnosed the client with a condition that would lead to legal blindness, but who were not blind when the commission determined eligibility. In the other two cases, the commission determined, contrary to medical records and the medical consultant's report, that each client had a condition which would likely lead to blindness and determined they were eligible for services. Commission management stated that they fund both blind and visually impaired individuals, with conditions likely to lead to blindness, with vocational rehabilitation funds. As these clients did not, at the time of eligibility determination, meet the commission's definition of legal blindness for vocational rehabilitation, the commission should not have provided them services. During the current fiscal year, the costs totaled \$21,090 for these five clients, of which \$18,320 was paid with federal vocational rehabilitation funds.

**We recommend** commission management rely on the medical reports and commission's medical consultant in determining whether a client's condition meets the definition of legal blindness or has a condition that will likely lead to legal blindness. Furthermore, we recommend

commission management review their current practice and ensure that it is consistent with their state plan, administrative rules and policy manuals.

**Cash Management**  
**Material Weakness**

According to the U.S. Department of Education (DOE) regulations, for any cash drawn from the state's DOE grant, the state must draw down the amount necessary to meet the immediate needs of the grant and keep to a minimum the time between drawing down the funds and paying them out for grant activities. Furthermore, when the draw request is made, the state certifies that the full amount drawn will be expended within three business days.

The Oregon Commission for the Blind (commission) usually draws down federal funds once a month and for the current state fiscal year made 15 draw requests. According to the commission, the draw should include expenditures incurred since the prior draw and payroll amounts expected to be paid at the beginning of the next month. We reviewed all draws that occurred during the fiscal year. In our review, 11 draws were not expended within three business days.

**We recommend** commission management ensure federal vocational rehabilitation funds are expended within three business days of receipt. If necessary, the commission should consider drawing more frequently than once a month in order to comply with the federal requirement.

**Equipment**  
**Material Weakness**

Federal guidelines require Oregon Commission for the Blind (commission) to track all equipment, charged directly to a federal award, with a useful life of greater than one year and an acquisition cost of over \$5,000. Furthermore, the commission shall use, manage, and dispose of equipment acquired under a federal grant in accordance with state laws and procedures. Additionally, the state rules require that a physical inventory be taken annually.

During our audit, we obtained the commission's equipment tracking spreadsheet. Based on our review, it did not appear to be up-to-date or include most equipment purchases for clients. Commission management agreed that the equipment listing was not current, and that the majority of client purchases are not tracked centrally. According to commission management, a physical inventory has not been completed.

**We recommend** commission management ensure qualifying equipment is adequately tracked to comply with federal requirements. We also recommend the commission perform an annual inventory of vocational rehabilitation equipment.

**Allowable Costs – Payroll**  
**Material Weakness**  
**Questioned Costs \$1,756**

According to OMB Circular A-87, when employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports

or equivalent documentation. Such documentation is required when employees work on more than one federal award or on indirect cost activity.

During our testing of payroll expenditures, we tested 23 randomly selected employees to ensure time was appropriately allocated to the vocational rehabilitation grant. Of these 23 employees, five had allocated their time to more than one federal program. The process the commission used to allocate time charged was a three month average. For example, January, February and March's actual time, by employee, was averaged and used to charge time for April, May and June. In four of the five employees tested, the time charged to the vocational rehabilitation grant did not agree to the commission's methodology and supporting documentation. This resulted in questioned costs of \$1,756. When projected to the population, likely questioned costs exceed \$10,000.

Additionally, we found that commission administrative employees' time is all charged to the vocational rehabilitation grant. For example, during our testing of payroll, an accounts payable clerk's salary was 100 percent paid for with vocational rehabilitation funds for three months. Since commission employees do not track administrative time used for different grants, we were unable to determine the extent of employee time working on other grants that was incorrectly billed.

**We recommend** commission management implement a process for administrative employees to track actual time spent on each grant so time can be properly recorded and allocated between federal programs. We also recommend that commission management develop and implement policies and procedures to ensure that amounts charged to each grant agree with commission methodologies for allocating time.

### **Allowable Costs**

#### **Questioned Costs \$1,995**

Federal regulations require the Oregon Commission for the Blind (commission) to develop and maintain written policies covering the nature and scope of vocational rehabilitation services. The commission has adopted policies governing expenditures for clients. In addition, OMB Circular A-87 provides guidelines on the allowable costs for state agencies relating to federal grant monies. During our review of both administrative and client purchases, we found the following instances of noncompliance.

- Circular A-87 states that costs of goods or services for personal use by the governmental unit's employees are unallowable. According to the commission, Costco memberships were provided to four employees to use for commission program purposes. However, the commission would not be able to prevent employees from using the memberships for personal use. These memberships totaled \$170, of which \$102 was paid for with vocational rehabilitation funds.
- The business enterprise program provides funds for various types of businesses, including coffee carts. The commission is responsible for furnishing each business facility with adequate equipment and initial stocks of merchandise necessary for operation. The

commission approved the purchase of NFL jerseys, banners and rugs to decorate a client's coffee cart. According to the commission, these items were considered marketing materials. However, the commission's policies do not address marketing materials. As the merchandise purchased is not necessary for the operation of the coffee cart, we are questioning these costs. The commission paid \$329, of which \$259 was paid with vocational rehabilitation federal funds.

- Commission policy requires at least one year's work experience between receiving a baccalaureate degree and any advanced study. Exceptions can be granted on an individual basis. One client who received commission funding for an undergraduate degree and graduate program, did not obtain a year of work experience in between, nor was it documented if the commission had granted an exception. The commission paid \$2,077, of which \$1,634 was paid with vocational rehabilitation federal funds.

In total we identified \$1,995 in questioned costs.

**We recommend** commission management ensure that controls are designed, implemented and operating effectively to ensure that all payments are allowable, reasonable, and adequately supported to comply with federal and state guidelines.

### **Eligibility Determination**

Federal regulations require that the Oregon Commission for the Blind (commission) determine whether an individual is eligible for vocational rehabilitation services within a reasonable period of time, not to exceed 60 days after the individual had submitted an application for services. In the 40 case files reviewed for eligibility determinations, six of the case files did not have an eligibility determination within the 60 day requirement nor was an extension filed. According to commission management, they changed their review process related to the determination of eligibility in 2003. For four of the six instances identified, the eligibility determination occurred prior to 2003; for the remaining two instances, the eligibility determination occurred after 2003.

**We recommend** commission management ensure eligibility is determined or eligibility extensions are filed within 60 days of the client's application.

### **Reporting**

The Oregon Commission for the Blind (commission) is required to report annually the expenses of the vocational rehabilitation grant using the Program Cost Report. Currently, the commission does not have written procedures governing reporting. For the federal fiscal year ending September 30, 2007, the report submitted by the commission did not contain complete documentation to support the categorization of expenditures. Although the commission correctly reported total expenditures on the Program Cost Report, we question the categorization of \$439,943 of these expenditures, which represent 5.9 percent of the total expenditures for the fiscal year.

**We recommend** commission management ensure documentation is sufficient to support the categorization of expenditures on the report. Furthermore, we recommend the commission develop written procedures governing reporting.

The seven significant deficiencies, four of which we consider to be material weaknesses, identified above, along with your responses, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2007. Including your responses satisfies the federal requirement that management prepare a Corrective Action Plan covering all reported audit findings. Satisfying the federal requirement in this manner, however, can be accomplished only if the response to each significant deficiency and material weakness 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.

Please respond by March 14, 2008. We will follow up on the department's progress in addressing these issues during the next fiscal year audit.

This communication is intended solely for the information and use of management, others within the organization, and the commission members and is not intended to be and should not be used by anyone other than the specified parties.

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

Sincerely,  
OREGON AUDITS DIVISION

Kelly L. Olson, CPA  
Audit Manager

KLO:brk

cc: Don Dartt, OCB Commission  
Dacia Johnson, Rehabilitative Services Director  
Leslie Jones, Administrative Services Director  
Scott Harra, Director, Department of Administrative Services