

**Office of the Secretary of State**

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March 18, 2010

Susan Castillo, Superintendent of Public Instruction  
Department of Education  
255 Capitol St. NE, Suite 200  
Salem, Oregon 97310

Dear Ms. Castillo:

We have completed the statewide single audit that included selected federal programs at Department of Education (department) for the year ended June 30, 2009.

We audited the following federal programs at the department to determine whether the department substantially complied with the federal requirements relevant to the federal programs. Our audit does not provide a legal determination of the department's compliance with those requirements.

CFDA Number	Program Name	Audit Amount
10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster	\$ 116,874,168
84.010	Title 1 Grants to Local Educational Agencies	133,386,838

This audit work is not a comprehensive audit of your federal programs. 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 each major 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 programs.

In planning and performing our audit, we considered the department's internal control over compliance with requirements that could have a direct and material effect on the federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on the department'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 department'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 controls. As discussed below, we identified deficiencies in internal control that we consider to be a significant deficiency and a material weakness.

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. We consider the following deficiency to be a significant deficiency in internal control.

**Title 1 Grants to Local Educational Agencies**  
**Subrecipient Monitoring**

The department did not retain supporting documentation to provide sufficient evidence for subrecipient monitoring reviews of local education agencies (LEAs) and did not ensure reviews were completed timely for all subrecipients.

Federal regulations require the department to monitor subrecipients' use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that federal awards are administered in compliance with laws, regulations and provisions of contracts or grant agreements. The department developed a checklist to use for subrecipient monitoring. The checklist addresses several of the federal compliance requirements, including allowable activities and costs, eligibility, equipment management, level of effort, financial reporting, and various special tests and provisions.

We reviewed subrecipient monitoring files for 46 LEAs and found 25 of the files did not contain the checklists, or other evidence, showing the compliance requirements that were reviewed. Additionally, we found no documentation of a subrecipient monitoring review being recently conducted for four of the 46 LEAs. Department staff were not required to retain the checklists and department management stated staffing shortages resulted in postponement of some recent reviews.

**We recommend** department management require employees to retain evidence of compliance requirements reviewed during subrecipient monitoring and ensure subrecipient monitoring is completed timely for all subrecipients.

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. We did not identify any deficiencies in internal control over a type of compliance requirement that we consider to be a material weakness that could result in material noncompliance; however, we noted a material weakness in internal controls over reporting expenditures in the Schedule of Expenditures of Federal Awards. We believe that the following deficiency constitutes a material weakness:

**Title I Grants to Local Educational Agencies**  
**Federal Accruals Not Posted to Schedule of Expenditures of Federal Awards**

Recipients of federal awards are required to identify in their accounts all federal awards received and expended. The department did not properly accrue federal expenditures for the Title I program

during fiscal year 2008 or 2009. For fiscal year 2008, the department did not accrue approximately \$12.7 million in expenditures resulting in an understatement of expenditures for fiscal year 2008 and an overstatement for fiscal year 2009. At the close of 2009, the department appropriately accrued some expenditures to the fiscal year 2009 period, but did not estimate an accrual at the program level for the rest of the expenditures. These accrual errors resulted in a net overstatement of approximately \$9.8 million to the Title I program on the 2009 Schedule of Expenditures of Federal Awards.

**We recommend** department management consider their expenditure accruals at the program level to ensure the SEFA is accurate and complete by program.

In addition to the deficiencies identified above, we identified an other matter that does not rise to the level of a significant deficiency or a material weakness but that warrants management's attention.

### **OTHER MATTER**

#### **Child Nutrition Cluster**

#### **Matching Amounts Contributed by School Food Authorities Not Verified**

The department does not verify matching amounts contributed by the school food authorities (SFAs) for the National School Lunch Program (NSLP). Federal regulations require the state to contribute state-appropriated funds of a specified percentage to match the state's NSLP federal awards. To comply with this requirement, the department prorates the state's required match contribution to the SFAs and communicates to the SFAs their portion of the required match contribution. Each SFA completes a memo noting its match contribution was made by a transfer of General Fund monies to its Food Services Fund or otherwise expended in support of the program. However, the department does not verify matching amounts contributed by the SFAs for the program, and SFAs are not required to provide supporting documentation.

According to federal regulations, matching contributions should be verifiable from the entity's records and allowed under the applicable cost principles, and should not be included as contributions for any other federally assisted programs. Without verifying SFA reported matching amounts, the department cannot be assured the contributions meet federal requirements.

**We recommend** the department verify SFA reported matching amounts to ensure contributions meet federal requirements.

The significant deficiency and material weakness, along with your responses, will be included in our Statewide Single Audit Report for the Fiscal Year Ended June 30, 2009. 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 only be accomplished 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:

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- 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 23, 2010.

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

We appreciate your staff's assistance and cooperation during this audit. Should you have any questions, please contact Diane Farris or me at (503) 986-2255.

Sincerely,  
OREGON AUDITS DIVISION

Julianne Kennedy, CPA  
Audit Manager

JK:sms

cc: Sue MacGlashan, Assistant Superintendent, Office of Finance and Administration  
Tomas Flores, Accounting Services Director  
Duncan Wyse, Chair, Board of Education  
Ed Dennis, Chair, Audit Committee  
Colleen Mileham, Assistant Superintendent, Office of Educational Improvement & Innovation  
Tryna Luton, Director, School Improvement and Accountability  
Joyce Dougherty, Director, Child Nutrition Program  
Heidi Dupuis, Program Manager, School Nutrition Programs  
Scott Harra, Director, Department of Administrative Services