

Office of the Secretary of State

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March 15, 2010

Victor Merced, Director
Oregon Housing and Community Services Department
725 Summer St. NE, Suite B
Salem, Oregon 97301-1266

Dear Mr. Merced:

We have completed the statewide single audit that included selected federal programs at Oregon Housing and Community Services Department (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
14.182	Section 8 Project-Based Cluster	\$50,895,536
81.042	Weatherization Assistance for Low-Income Persons	\$3,975,323
81.042	ARRA Weatherization Assistance for Low-Income Persons	\$733,070
93.568	Low-Income Home Energy Assistance	\$44,718,704
93.569	Community Services Block Grant	\$5,368,479
93.710	ARRA Community Services Block Grant	\$33,867

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 significant deficiencies.

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 deficiencies to be significant deficiencies in internal control.

Community Services Block Grant (CSBG)

Lack of Program Onsite Monitoring of Subrecipients

Federal regulations over the Community Services Block Grant (CSBG) require the department to conduct periodic onsite subrecipient reviews. Further, the department's CSBG state plan requires these reviews be conducted at least once during the subrecipient's program year. The department's monitoring activities include fiscal and program subrecipient monitoring. Program monitoring includes a review of the subrecipient's determination that a client is eligible for services. Although department management conducted fiscal onsite reviews, they have not performed program onsite reviews since program year 2007. In addition, we were unable to determine whether CSBG client eligibility was reviewed during the monitoring conducted in program year 2007.

According to department management, inadequate resources hindered the department's ability to perform its program onsite reviews. Insufficient subrecipient monitoring increases the risk that subrecipients are not administering federal awards in compliance with federal requirements. This is of particular concern since the program has been awarded a significant amount of American Recovery and Reinvestment Act Funds.

We recommend department management ensure required program monitoring is performed in compliance with federal requirements and the approved state plan. In addition, we recommend that when program site visits are conducted, appropriate documentation of the visit is maintained.

Weatherization Assistance for Low-Income Persons (WAP)

Lack of Program Onsite Monitoring of Subrecipients

Federal regulations over the Weatherization Assistance for Low-Income Persons Program (WAP) require the department to conduct a comprehensive monitoring of each subrecipient at least once a year. The comprehensive monitoring must include a review of client files and subrecipient records, as well as actual inspection of at least 5 percent of the completed units. The department performs these reviews and inspections during their program onsite monitoring visits. The department's WAP state plan requires that each subrecipient be monitored at least once during its program year.

We found that the department did not perform onsite monitoring for 8 of the 17 subrecipients for the 2008 program year ended March 31, 2009. According to management, inadequate resources hindered the department's ability to perform its program onsite visits, and they are currently working to devote more resources toward meeting the monitoring requirement for the 2009 program year. Insufficient subrecipient monitoring increases the risk that subrecipients are not administering

federal awards in compliance with federal requirements. This is of particular concern since the program was awarded a significant amount of American Recovery and Reinvestment Act funds.

We recommend department management ensure required program monitoring is performed in compliance with federal requirements.

**Low-Income Home Energy Assistance Program (LIHEAP)
Lack of Program Onsite Monitoring of Subrecipients**

Federal regulations require the department to monitor the activities of subrecipients to ensure that federal awards are used for authorized purposes. The department's Low-Income Home Energy Assistance Program (LIHEAP) state plan requires program and fiscal onsite visits of subrecipients be performed to partially fulfill this requirement. The department's LIHEAP Operation Manual and the Oregon Administrative Rules further specify that each subrecipient be monitored at least once each two years or at least once during its program year.

Of the department's \$44,718,704 in federal funds for LIHEAP for the year ended June 30, 2009, approximately 98 percent were passed through to subrecipients. Although department management conducted fiscal onsite monitoring, they had not performed program onsite monitoring since program year 2007.

According to management, inadequate resources have hindered the department's ability to perform its program onsite reviews. Insufficient subrecipient monitoring increases the risk that subrecipients are not administering federal awards in compliance with federal requirements. Department management made efforts to compensate for a lack of program onsite monitoring through training and technical assistance visits, desktop monitoring, and communications. However, there was insufficient documentation of these alternate procedures to allow us to confirm their effectiveness. In addition, these alternate procedures did not address all program monitoring activities such as client eligibility determinations at the subrecipient level.

We recommend department management ensure required program monitoring is performed in compliance with federal requirements. In addition, we recommend sufficient documentation of monitoring activities be maintained.

**Community Services Block Grant (CSBG) and
Low-Income Home Energy Assistance Program (LIHEAP) Late Report Submission**

Federal regulations require the department to submit an annual financial status report for the Community Services Block Grant Program (CSBG) and the Low-Income Home Energy Assistance Program (LIHEAP). The financial status reports for the period ending September 30, 2008, were required to be submitted by December 30, 2008. The department submitted the majority of the reports in January 2010, approximately a year late. The individual responsible for submitting the financial status report was previously unaware of the reporting requirement, but took immediate action to prepare the delinquent reports once notified of the error.

We recommend department management establish a report tracking process to ensure compliance with federal reporting requirements.

The significant deficiencies, 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 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 the 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 Oregon State Housing Council 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 Nicole Rollins or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Julianne Kennedy, CPA
Audit Manager

JK:sms

cc: Rick Crager, Deputy Director
Nancy Cain, Chief Financial Officer
Pegge McGuire, Community Resources Division Administrator
Margaret McDowell, Chief Audit Executive
Maggie LaMont, Chair of the Oregon State Housing Council
Scott Harra, Director, Department of Administrative Services