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March 14, 2011

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

Dear Ms. Mock:

We have completed audit work of a selected federal program at the Oregon Commission for the Blind (commission) for the year ended June 30, 2010.

This audit work was not a comprehensive audit of your federal programs. We performed this audit work as part of our annual statewide single audit. The audit work performed allowed us, in part, to achieve the following objectives: (1) determine whether the commission has complied with laws, regulations, contracts or grants that could have a direct and material effect on the selected federal program and (2) determine whether the commission has effective internal controls over compliance with the laws, regulations, contracts and grants applicable to the selected 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.

CFDA Number	Program Name	Audit Amount
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	$3,623,164
84.390	Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act	$533,584

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 major federal program to determine the auditing procedures for the purpose of expressing our opinion on the commission’s compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of the federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the paragraph above and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Significant Deficiencies

Maintenance of Effort not met

Program Title & CFDA Number: Vocational Rehabilitation Cluster: CFDA 84.126, 84.390
Federal Award Numbers: Vocational Rehabilitation Cluster: H126A090055

The federal government imposes maintenance of effort requirements for the Vocational Rehabilitation program. Specifically, federal regulations (34 CFR section 361.62) require that states spend non-federal funds equal to the amount of non-federal expenditures from the fiscal year two years prior. In addition, federal regulations state that if a separate state agency provides vocational rehabilitation services for individuals who are blind, satisfaction of maintenance of effort requirements are based on the total of a state's non-federal expenditures.

We reviewed total expenditures for the two state agency recipients of Vocational Rehabilitation funds, and found that the maintenance of effort requirement for the state of Oregon was not met by $416,072. In past years, the two agencies separately tracked and both met the requirement. For federal fiscal year 2009, the commission did not meet its maintenance of effort. According to the commission, it spent additional state funding two years prior as the other state agency made a one-time transfer of federal funds to the commission for a major construction project that improved their facility. For federal fiscal year 2009, the commission thought the other state agency would spend additional state funding related to the transfer to meet the maintenance of effort. However, due to a lack of clear communication, no additional non-federal funds were spent.

Recommendation: We recommend commission management have a written agreement if it plans to rely on the other state agency to meet the maintenance of effort requirement.

Report not accurately completed

Program Title & CFDA Number: Vocational Rehabilitation Cluster: CFDA 84.126, 84.390
Federal Award Numbers: Vocational Rehabilitation Cluster: H126A090055

Federal instructions for the SF-425 report require agencies to provide quarterly reports that show the activity of each grant. In these reports, agencies are to indicate cash receipts, cash disbursements, and the difference between these two items, which represents cash on hand. The cash on hand represents funds drawn before the expenditures have been incurred. The federal agency may require an explanation as to why funds were drawn prematurely.

We found the commission's quarterly reports reported the cumulative disbursements instead of actual cash receipts charged to the grant. Had the commission properly reported receipts and disbursements, the quarterly report as of June 2010 would show disbursements exceeded cash and the report as of September 2010 would reflect cash on hand.

Commission staff stated this was caused by a misinterpretation of the instructions and that at the end of a grant phase disbursements will equal cash receipts.

Recommendation: We recommend the commission ensure that quarterly reports are properly completed.

Cost allocation process not followed

Program Title & CFDA Number: Vocational Rehabilitation Cluster: CFDA 84.126, 84.390
Federal Award Numbers: Vocational Rehabilitation Cluster: H126A090055, H390A090055
Known Questioned Costs: $61,365

Beginning in fiscal year 2010, the commission has an approved cost allocation plan to allocate indirect costs, which are costs that benefit the entire agency or are unidentifiable to any particular federal program. According to its plan, indirect costs should be charged to an indirect cost pool and then allocated according to the approved plan.

In August 2009, the commission stopped charging indirect costs to the indirect cost pool due to legislative limitations of its funding. Instead, the commission charged its indirect costs directly to federal programs and, at a later time, reallocated the charges to reflect its cost allocation plan. The reallocation was not performed timely, consistently, or in accordance with the approved plan. Further, the commission made errors when performing the reallocation. As a result, the federal grant for Vocational Rehabilitation was overcharged by $61,365.

Recommendation: We recommend commission management review and modify its current practice for charging indirect costs to ensure it complies with federal regulations. In addition, we recommend the commission refund the $61,365 in overcharges to the appropriate federal agency.

The significant deficiencies, along with your responses, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2010. 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 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 names of the contact persons responsible for corrective action.

Please respond by March 18, 2011.

This communication is intended solely for the information and use of management, the Oregon Commission for the Blind, federal awarding agencies, and pass-through entities 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 Michelle Rock or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Kelly L. Olson, CPA
Audit Manager

KLO:MLR:nmj

cc: Leslie Jones, Fiscal Manager, Administrative Services Program
Dacia Johnson, Director, Rehabilitative Services Program
Frank Armstrong, Chair, Commission for the Blind Board
Michael Williams, Economic Recovery Executive Team, Office of the Governor
Kris Kautz, Acting Director, Department of Administrative Services