

Office of the Secretary of State

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March 8, 2011

Richard Crager, Acting Director
Oregon Housing and Community Services Department
725 Summer Street NE, Suite B
Salem, Oregon 97301

Dear Mr. Crager

We have completed audit work of selected federal programs at the Oregon Housing and Community Services Department (department) 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 department has complied with laws, regulations, contracts or grants that could have a direct and material effect on the selected federal programs and (2) determine whether the department has effective internal controls over compliance with the laws, regulations, contracts and grants applicable to the selected federal programs. 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.

<u>CFDA Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
81.042	Weatherization Assistance for Low-Income Persons	\$ 3,354,439
81.042 (ARRA)	Weatherization Assistance for Low-Income Persons	11,711,083
93.568	Low-Income Home Energy Assistance Program	50,177,085
93.569	Community Services Block Grant	5,504,271
93.710 (ARRA)	Community Services Block Grant	6,021,171

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 major federal programs to determine the auditing procedures for the purpose of expressing our opinion on the department'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 department'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

Subrecipient Monitoring - Lack of Fiscal Monitoring of Subrecipients' Cash Draw Downs

Low-Income Home Energy Assistance, CFDA 93.568
Community Services Block Grant, CFDA 93.569, 93.710
Weatherization Assistance for Low-Income Persons, CFDA 81.042

The Cash Management section of the OMB Compliance Supplement requires the department to monitor cash draw downs of subrecipients to ensure that subrecipients follow certain standards regarding timing and amount. These requirements include ensuring that program costs are paid for with entity funds before reimbursement is requested from the federal government.

We reviewed all 19 subrecipient monitoring files and found that seven files contained no evidence that a review of support for draw requests was performed. Insufficient subrecipient monitoring increases the risk that management will not detect situations where the subrecipient is submitting draw requests before incurring the related expenditures. According to department management, this was an oversight by the employee performing the monitoring and the review is now being performed.

We recommend department management ensure monitoring of subrecipient requests for cash draw downs is performed in compliance with federal requirements.

Subrecipient Monitoring - Lack of Program Onsite Monitoring

Community Services Block Grant, CFDA 93.569,93.710

Title 42 of the United States Code (chapter 106, section 9914), over the Community Services Block Grant (CSBG) requires the department to conduct periodic onsite subrecipient reviews. Further, the department's CSBG state plan requires these reviews to be conducted at least once during the program year. Program Monitoring includes a review of the subrecipient's determination that a client is eligible for services and that all payments are for allowable services.

Although department management conducted program onsite reviews, their reviews focused only on American Recovery and Reinvestment Act (ARRA) funds. Of the 18 onsite reviews performed by the department, we reviewed six and found only three that met expectations. For the remaining three, the department did not monitor one subrecipient during the program year and we were unable to determine if one subrecipient was monitored for compliance with allowable client cost requirements and if another subrecipient was monitored for client eligibility requirements.

According to department management, ARRA expenditures represent higher risk due to strict ARRA regulations; therefore, the department focused their onsite monitoring only on ARRA expenditures. Insufficient subrecipient monitoring increases the risk of not timely identifying subrecipients that are not administering federal awards in compliance with federal requirements.

We recommend department management ensure program monitoring is performed and adequately documented in compliance with federal requirements and the approved state plan

Reporting - Lack of Reconciliation of the OPUS system

Low-Income Home Energy Assistance, CFDA 93.568
Community Services Block Grant, CFDA 93.569, 93.710
Weatherization Assistance for Low-Income Persons, CFDA 81.042

An effective system of internal control includes adequate procedures to ensure that transactions are accurately, completely, and properly recorded in the accounting system. An effective system also includes adequate controls to ensure that financial information in a subsidiary accounting system reconciles to the main accounting system.

The department uses OPUS, a subsidiary system, to complete its federal financial status reports. The department does not reconcile OPUS to the Statewide Financial Management Application (SFMA), which is the state's main accounting system. Regular reconciliation between these two systems is an important internal control that provides assurance that amounts included in federal reports agree to and are supported by the financial accounting system.

We recommend department management strengthen its controls over federal reporting by regularly reconciling OPUS to SFMA .

Subrecipient Monitoring - A-133 reviews

Low-Income Home Energy Assistance, CFDA 93.568
Community Services Block Grant, CFDA 93.569, 93.710
Weatherization Assistance for Low-Income Persons, CFDA 81.042

The Office of Management and Budget (OMB) provides instruction on how to perform reviews of the audit reports of subrecipients. OMB A-133 §____.400(d)(5) states that a pass-through entity shall issue a management decision on audit findings within six months after receipt of the audit report and ensure that the subrecipient takes appropriate and timely corrective action on any findings.

We reviewed five A-133 audit reviews performed by the department. For one review, although a material weakness was identified in the A-133 audit, the department's review indicated no findings were present. Consequently, the department did not perform follow-up or review the subrecipient's corrective action plan.

Lack of adequate monitoring of subrecipient A-133 audits could result in continued funding to recipients who are not compliant with federal requirements.

We recommend the department ensure all A-133 audits are adequately reviewed and the proper follow-up is performed.

Prior Year Findings

In the prior fiscal year, we reported a significant deficiency related to the department's Low-Income Home Energy Assistance and Community Services Block Grant programs regarding late submission of the financial status report to the federal government and another significant deficiency related to the Community Services Block Grant program regarding a lack of subrecipient monitoring, in a letter dated March 15, 2010. These findings can also be found in the Statewide Single Audit Report for the fiscal year ended June 30, 2009; see Secretary of State audit report number 2010-19, finding numbers 09 -26 and 09-27. During fiscal year 2010, the department made progress in correcting these two findings. These findings will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2010, with a status of "partial corrective action taken."

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 the 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 17, 2011.

This communication is intended solely for the information and use of management, Oregon State Housing Council others within the organization, 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

Julianne Kennedy, CPA
Audit Manager

JK:MLR:nmj

cc: Nancy Cain, Chief Financial Officer
Margaret McDowell, Internal Auditor
Pegge McGuire, Community Resources Division Administrator
Maggie LaMont, Chair of the Oregon State Housing Council
Michael Williams, Economic Recovery Executive Team, Office of the Governor
Kris Kautz, Acting Director, Department of Administrative Services