

Office of the Secretary of State

Kate Brown
Secretary of State

Barry Pack
Deputy Secretary of State



Audits Division

Gary Blackmer
Director

255 Capitol Street NE, Suite 500
Salem, OR 97310

(503) 986-2255

fax (503) 378-6767

March 16, 2012

Tim McCabe, Director
Oregon Business Development Department
755 Summer Street NE, Suite 200
Salem, Oregon 97301-1280

Dear Mr. McCabe:

We have completed audit work of a selected federal programs at the Oregon Business Development Department (department) for the year ended June 30, 2011.

This audit work was not a comprehensive audit of your federal program. 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 program and (2) determine whether the department 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 department to determine whether the department substantially complied with the federal requirements relevant to the federal program.

<u>CFDA Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
66.468	Safe Drinking Water Revolving Loan Fund	\$17,672,657
66.468	Safe Drinking Water Revolving Loan Fund – ARRA	19,721,804

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 program 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.

Other Deficiency

We identified the following other matter that is an opportunity to strengthen internal control but is not considered to be a significant deficiency or a material weakness. This other matter does not require a written response from management.

Monitoring of Subrecipients Single Audit Reports

The Office of Management and Budget (OMB) Circular A-133 outlines requirements for entities that pass federal funds to subrecipients, which include ensuring subrecipients obtain a single audit if they expend more than \$500,000 in federal awards and reviewing single audit reports of subrecipients. Furthermore, the Oregon Accounting Manual (OAM) details the responsibilities and requirements for performing the reviews, including timelines and actions to take if an entity is unwilling or unable to obtain a single audit.

The department was assigned to review 19 subrecipients' single audit reports for fiscal year 2010. We reviewed all subrecipients to verify the department had reviewed the single audit reports. We found the department had not received a single audit report for five subrecipients and had incorrectly determined one other subrecipient did not require a single audit for 2010. Although the department made inquiries of these subrecipients in July 2011, no further communication or review was documented. Based on our review of the federal clearing house website, one of the six subrecipients had submitted a single audit in February 2012.

We recommend management ensure its assigned subrecipients obtain a single audit as required by OMB Circular A-133. In addition, the department should notify the subrecipients that they are required to have a single audit for fiscal year 2010, obtain a date of planned corrective action by the subrecipient, and review the audit reports upon receipt. Further, the department should take appropriate actions if the subrecipient is unwilling or unable to have a single audit completed.

This communication is intended solely for the information and use of management, the Oregon Business Development Commission, the Infrastructure Finance Authority Board, 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.

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

Sincerely,
OREGON AUDITS DIVISION

Kelly L. Olson, CPA
Audit Manager

KLO:nmj

cc: Lynn Schoessler, Deputy Director
Phil Johanson, Financial Services Division Manager
Gary D. Neal, Board Chair, Infrastructure Finance Authority Board
E. Walter Van Valkenburg, Chair, Oregon Business Development Commission
Gerold Floyd, Director of Recovery Act Management
Michael J. Jordan, Director, Department of Administrative Services