

Office of the Secretary of State

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March 6, 2012

Margaret Van Vliet, Director
Housing and Community Services Department
725 Summer Street NE, Suite B
Salem, Oregon 97301

Dear Ms. Van Vliet:

We have completed audit work of selected federal programs at the Oregon Housing and Community Services Department (department) for the year ended June 30, 2011.

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	\$ 2,348,072
81.042 (ARRA)	Weatherization Assistance for Low-Income Persons	14,186,682
93.568	Low-Income Home Energy Assistance Program	46,699,870
93.569	Community Services Block Grant	5,544,086
93.710 (ARRA)	Community Services Block Grant	1,930,512

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 these 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

Reporting - Annual Report on Households Assisted by LIHEAP Low-Income Home Energy Assistance, CFDA 93.568

Federal Regulations require the department to submit an Annual Report on Households Assisted by LIHEAP (report) for the Low-Income Home Energy Assistance Program (LIHEAP). The report includes the number and income levels of households assisted and the number of households served that include young children, elderly, or persons with disabilities.

The report, submitted in December of 2010 to the U.S. Health and Human Services, was completed timely, but had errors that were not detected prior to the audit. For example, the original report showed 136,614 households served, when the correct figure was 92,374. Once the errors were identified, management corrected the amounts and resubmitted the report with the correct information.

We recommend department management ensure the Report on Households Assisted by LIHEAP is submitted with accurate numbers and that the amounts agree to the supporting documentation.

Subrecipient Monitoring - LIHEAP Program Monitoring
Low-Income Home Energy Assistance, CFDA 93.568

The Master Grant Agreement between the department and each subrecipient states that the department should communicate in writing to the subrecipient within 60 days of completion of monitoring. This requirement helps to ensure timely communication of issues that could result in noncompliance with federal program requirements.

In two of the six monitoring files reviewed, we found:

- one file was reviewed in July 2010 and the decision letter was sent to the subrecipient nearly a year later on June 23, 2011;
- another review was completed in May 2011 and the decision letter was sent six months later, after auditors requested to see it on November 22, 2011.

It is important to timely communicate findings and issues to subrecipients so that corrective action may be taken over issues that could result in noncompliance with federal requirements.

We recommend department management comply with the Master Grant Agreement and ensure monitoring results are communicated to subrecipients within 60 days of the monitoring review, particularly when the review contains issues that could result in noncompliance with federal requirements.

Other Deficiency

In addition, 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.

Subrecipient Monitoring - Fiscal Monitoring
Low-Income Home Energy Assistance, CFDA 93.568
Community Service Block Grant, CFDA 93.569
ARRA – Community Service Block Grant, CFDA 93.710
Weatherization Assistance for Low-Income Persons, CFDA 81.042
ARRA - Weatherization Assistance for Low-Income Persons, CFDA 81.042

Federal regulations state that pass-through entities are responsible for monitoring their subrecipients to ensure they comply with all applicable laws and regulations. This includes verifying that subrecipients have a cost allocation plan in place. Additionally, the state plan for the Low-Income Home Energy Assistance Program (LIHEAP) and the Weatherization Program requires that subrecipients be monitored once during each program year.

We reviewed six monitoring files and found:

- two files were missing documentation of a cost allocation plan; for one of the two files, the fiscal monitor subsequently provided a cost allocation plan, but it appeared to belong to a different entity;
- as of June 30, 2011, one subrecipient had not been monitored for over two years.

If monitoring is not routinely completed, noncompliance could go undetected and any necessary corrective actions delayed. This could result in a misuse of federal funds. Further, if cost allocation plans are not reviewed, indirect costs could be allocated in error leading to reimbursement of inappropriate costs.

We recommend department management ensure adequate fiscal monitoring activities are performed for all subrecipients and include reviewing the subrecipients' cost allocation plans for compliance with federal requirements. The department should retain evidence of the reviews and copies of the plans in their monitoring files.

Prior Year Findings

In the prior fiscal years, we reported significant deficiencies to you in letters dated March 8, 2011, and March 15, 2010. We reported a significant deficiency regarding late report submission of the financial status report for the department's Low-Income Home Energy Assistance Program and Community Service Block Grant. We reported two significant deficiencies regarding subrecipient monitoring: lack of fiscal monitoring of subrecipients' cash draws and lack of review of A-133 reports for the Low-Income Home Energy Assistance Program, Community Service Block Grant and Weatherization Assistance for Low-Income Persons. These findings can also be found in the Statewide Single Audit Reports for the fiscal years ended June 30, 2010, and 2009; see Secretary of State audit report numbers 2011-06 and 2010-19; finding numbers 09-26, 10-19 and 10-20.

During fiscal year 2011, the department made progress in correcting two of the findings and no progress in correcting the A-133 reviews. These three findings will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2011 with a status of partial corrective action and no corrective action taken for the A-133 reviews.

The significant deficiencies, along with your responses, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2011. 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.

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- 3) The anticipated completion date.
- 4) The names of the contact persons responsible for corrective action.

Please respond by March 12, 2012.

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/CRD Policy Advisor
Pegge McGuire, Community Resources Division Administrator
John Epstein, Chair of the Oregon State Housing Council
Diana Koppes, Business Operations Administrator
Gerold Floyd, Director of Recovery Act Management
Michael J. Jordan, DAS Director, Chief Operating Officer