

Office of the Secretary of State

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March 11, 2013

Rob Saxton, Deputy Superintendent
Oregon Department of Education
255 Capitol Street NE, Suite 200
Salem, Oregon 97310-0203

Dear Mr. Saxton:

We have completed audit work of selected federal programs at the Oregon Department of Education (department) for the year ended June 30, 2012.

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.

CFDA Number	Program Name	Audit Amount
10.553	School Breakfast Program (SPB)	\$ 32,778,534
10.555	National School Lunch Program (NSLP)	110,248,246
10.556	Special Milk Program for Children (SMP)	128,949
10.558	Child and Adult Care Food Program (CACFP)	32,162,466
10.559	Summer Food Service Program for Children (SFSPC)	5,675,746

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 consider the deficiencies in internal control over compliance described below to be material weaknesses.

Material Weaknesses

Allowable Costs – Incorrect System Coding Resulting in Overpayments

Program Title and CFDA Number	School Breakfast Program (SBP), CFDA 10.553 National School Lunch Program (NSLP), CFDA 10.555 Child and Adult Care Food Program (CACFP), CFDA 10.558
Federal Award Numbers and Year:	7OR3000R, 2012
Compliance Requirement:	Allowable Costs
Type of Finding:	Material Weakness, Material Non-Compliance
Questioned Costs:	\$311,597

Federal regulations require sponsors participating in the Child Nutrition Program to claim reimbursement for meals to children within a specified timeframe of 60 days following the last day of the full month covered in the claim. Generally, late claims are not to be paid with federal program funds unless authorized by the federal Food and Nutrition Service office.

The department uses an online application to process a sponsor's claims. The department had implemented a process to identify and deny late claims, but a coding error caused late claims to be processed as valid claims. As a result, during the 2012 fiscal year the department paid late claims for 11 sponsors including:

- CACFP sponsors overpaid by approximately \$14,276
- NSLP sponsors overpaid by approximately \$215,905
- SBP sponsors overpaid by approximately \$81,416

Department management indicated a manual process had been implemented during fiscal year 2013 to identify late claims until the coding in the application process could be corrected.

We recommend department management ensure compliance with submission timeframe requirements of the program and work with the federal agency to resolve the overpayments.

Reporting – FNS-777 Not Reporting All Activity of Period

Program Title and CFDA Number: School Breakfast Program (SBP), CFDA 10.553
National School Lunch Program (NSLP), CFDA 10.555
Special Milk Program for Children (SMPC), CFDA 10.556
Summer Food Service Program for Children (SFSPC), CFDA 10.559
Child and Adult Care Food Program (CACFP), CFDA 10.558

Federal Award Number and Year: 7OR3000R, 2012

Compliance Requirement: Reporting

Type of Finding: Material Weakness, Material Non-Compliance

Federal guidelines require the department to use the FNS-777 form to report certain financial information related to the Child Nutrition Program cluster and the Child and Adult Care Food program. Key items include the total federal share of expenditures, the total federal share of unpaid claims, and advances. Our review of the FNS-777 report for the period ending June 30, 2012 identified the following errors:

- Line 10j of the report did not include the expenditures in excess of the federal draws; resulting in the following under-reported total expenditures:
 - NSLP \$7,391,258
 - CACFP 2,552,493
 - SBP 2,500,513
 - Summer Food 752,130
 - Special Milk 7,016
- Line 10n of the report is used for reporting advances. The department did not have a process in place to identify and report outstanding advances at the end of the reporting period. As a result, CACFP advances of \$101,560 and Summer Food program advances of \$58,072 were not reported.

We recommend department management ensure that total expenditures for the period are reported. We also recommend department management develop a process to ensure that advances are included on the report.

The material weaknesses, along with your responses, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2012. 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 material weakness 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 15, 2013.

This communication is intended solely for the information and use of management, the Board of Education, 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 Melaney Scott or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

V. Dale Bond, CPA, CISA, CFE
Audit Manager

VDB:MAS:nmj

cc: Susan MacGlashan, Assistant Superintendent
Brian Reeder, Assistant Superintendent
Joyce Dougherty, Child Nutrition Program Director
Lynne Reinoso, Community Nutrition Programs Manager
Tomas Flores, Financial Services
James Scott, Chief Audit Executive
Artemio Paz, Jr., Chair, Oregon State Board of Education
Michael J. Jordan, Director, Department of Administrative Services