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March 8, 2013

Margaret Van Vliet, Director  
Housing and Community Services Department  
725 Summer Street NE, Suite B  
Salem, Oregon 97301-1266

Dear Ms. Van Vliet:

We have completed audit work of selected federal programs at Oregon Housing and Community Services (OHCS) 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 OHCS 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 OHCS 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 OHCS to determine whether OHCS 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	\$ 1,873,002
81.042 (ARRA)	Weatherization Assistance for Low-Income Persons	18,107,637
93.568	Low-Income Home Energy Assistance Program	36,451,977
93.569	Community Services Block Grant	5,144,986

In planning and performing our audit, we considered OHCS' internal control over compliance with the 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 OHCS' 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 OHCS' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. Therefore, there can be no assurance that all deficiencies, significant deficiencies, or material

weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

*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 a 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. We consider five deficiencies in internal control over compliance described below to be material weaknesses.

*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. We consider four deficiencies in internal control over compliance described below to be significant deficiencies.

## **Material Weaknesses**

### **LIHEAP Subrecipient Program Monitoring, Not Performed**

Low-Income Home Energy Assistance (LIHEAP), CFDA 93.568

Federal regulations state that OHCS, as a recipient of federal awards, must monitor the activities of subrecipients, as necessary, to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements. OHCS' state plan states they will satisfy some of these monitoring objectives by conducting a "program review" every program year, and performing an on-site evaluation every two program years. One of the objectives of the annual program review is to review household files for compliance with eligibility.

Of 19 subrecipients we found that none of them received an annual program review during program year 2012. In addition, 11 of 19 subrecipients did not receive an on-site evaluation within the last two program years. If program reviews are not performed, OHCS is not able to ensure that federal funds are used in compliance with grant requirements and for authorized purposes.

**We recommend** OHCS management ensure that all required program monitoring activities are timely performed to ensure federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements.

### **Lack of Controls over Equipment**

Weatherization Assistance for Low-Income Persons (WAP), CFDA 81.042

ARRA – Weatherization Assistance for Low-Income Persons (WAP ARRA), CFDA 81.042

Low-Income Home Energy Assistance (LIHEAP), CFDA 93.568

Federal regulations state that OHCS, as a recipient of federal awards, is required to maintain accurate records for equipment acquired with federal funds, and ensure that subrecipients are following the regulations to appropriately safeguard and maintain equipment. This also includes ensuring that subrecipients follow the appropriate regulations for acquiring and disposing of equipment.

We reviewed equipment records and monitoring files and found inconsistency in OHCS' documentation of equipment purchased with federal funds. We reviewed 7 of the 21 subrecipient files and found that the monitor did not always document the subrecipient's equipment inventory list. The monitor uses the subrecipient's list as a tool to ensure OHCS' master equipment list is complete and accurate and to facilitate meeting compliance requirements. However, when we compared OHCS' master equipment list to subrecipient inventory lists on file, we found a large number of inaccuracies. One federally funded equipment item was missing from the master list and many of the items that were listed contained inaccurate descriptive information, or lacked verification of the original cost or the source of funds used to purchase the equipment. We reviewed files for six equipment acquisitions from the master list and found that they did not always contain documentation that OHCS approved the purchase or that a competitive bidding process was used. We reviewed the files for four dispositions during the year and found the sales proceeds in one sample (purchased with LIHEAP Weatherization funds) were comingled with other weatherization funding sources, making it difficult to determine whether the appropriate funding source was receiving the benefit of those funds.

Accurate record keeping ensures that equipment purchased with federal funds is attributed to the appropriate program and is properly identified and secured. Reviewing the subrecipient's equipment ensures that OHCS' master listing is complete, and that subrecipients are following appropriate procedures when acquiring and disposing of equipment obtained with federal funds passed through from OHCS.

**We recommend** OHCS management ensure that subrecipient monitoring activities include a thorough review of the subrecipient's equipment inventory. OHCS management should ensure that the master equipment list is a complete list of all equipment purchased with federal funds and that it contains accurate equipment descriptions. Management should ensure the files contain evidence of proper approvals and that proper procedures are followed for the acquisition, maintenance, security, and disposal of equipment in accordance with federal requirements.

#### Program Activities/Costs Not Reviewed for Allowability

Low-Income Home Energy Assistance (LIHEAP), CFDA 93.568  
Community Services Block Grant (CSBG), CFDA 93.569

Federal regulations state that OHCS, as a recipient of federal awards, must monitor the activities of subrecipients, as necessary, to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements.

We reviewed subrecipient fiscal and program monitoring files and found that staff do not agree a subrecipient's Request for Funds (RFF) to supporting documentation (e.g., invoices and

original receipts) to determine whether the costs are allowable under the federal program. In some cases, the fiscal monitor may agree amounts to a subrecipient's general ledger or credit card statement, which is insufficient detail to determine whether the cost was appropriate in accordance with the program requirements. Although program coordinators review RFFs before approving disbursement of funds, this review is at a summary level and does not include supporting documentation that would allow the program coordinator to identify inappropriate costs or activities.

Inadequate monitoring of subrecipients' RFFs may result in OHCS inappropriately reimbursing subrecipients for unallowable costs that may be required to be returned to OHCS and to the federal agency.

**We recommend** OHCS management implement internal controls over subrecipient monitoring to ensure subrecipients expend federal funds for allowable activities and allowable costs authorized by each federal program. Monitoring activities should encompass the review of subrecipients' RFFs in sufficient detail to ensure costs are for allowable activities.

#### Cash Management – Timing/Immediacy Not Reviewed

Low-Income Home Energy Assistance (LIHEAP), CFDA 93.568  
Community Services Block Grant (CSBG), CFDA 93.569

Federal regulations state that OHCS, as a recipient of federal awards, must minimize the time between the draw-down of federal funds from the federal government and their disbursement for federal program purposes. OHCS must also minimize the time elapsing between the transfer from OHCS and the recipient's need for the funds.

OHCS is not monitoring its subrecipients to ensure expenditures meet federal cash management requirements. Program coordinators review Requests for Funds (RFFs) at a summary level prior to approving the draw-down of funds, but the coordinators do not have supporting documentation to determine whether the funds were spent prior to the reimbursement request. At times, OHCS provides advances for the CSBG program, but does not maintain documentation that the advances are for an immediate need, nor do they verify that the subrecipient expends the funds immediately.

By not ensuring cash management requirements are adhered to, OHCS may be providing cash advances for needs that are not immediate, reimbursing costs that have not yet occurred, and allowing subrecipients to be materially non-compliant with federal cash management requirements.

**We recommend** OHCS management put a process in place to ensure RFFs are for allowable program expenditures already incurred and that advances are for an immediate need in order to minimize the time between draw-down and disbursement of funds. Management should also ensure the need for an advance is documented and verify that the subrecipient expended the funds to minimize time elapsed between the receipt of the funds and the subrecipient's use of the funds.

### Subrecipient Monitoring – No Follow-Up Performed for A-133 Audit Findings

Weatherization Assistance for Low-Income Persons (WAP), CFDA 81.042  
ARRA – Weatherization Assistance for Low-Income Persons (WAP-ARRA), CFDA 81.042  
Low-Income Home Energy Assistance (LIHEAP), CFDA 93.568  
Community Services Block Grant (CSBG), CFDA 93.569

Federal regulations state that OHCS, as a recipient of federal awards, must monitor the activities of subrecipients, as necessary, to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements. OHCS, as a pass-through entity, is required to issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient has taken appropriate and timely corrective action. State procedures align with federal objectives and require OHCS to review the subrecipient's corrective action plan, determine its adequacy, determine if corrective action has been implemented, and if not, include a timetable for completion in the management decision. The State also requires OHCS to notify other contributing state agencies of audit findings relative to their programs.

We reviewed seventeen A-133 audit reports reviewed by OHCS' fiscal monitor. Findings were identified in three audit reports. In all three cases, OHCS:

- did not obtain or review the subrecipients' corrective action plans to determine if the plans responded to all deficiencies identified in the reports and provided reasonable corrective actions for each identified deficiency;
- did not ensure corrective action had occurred or issue timetables for completion of corrective actions; and
- did not issue management decisions on the audit findings.

In addition, one audit report identified a finding related to federal funding passed-through by a contributing state agency. OHCS did not notify the contributing agency of the finding.

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 fiscal monitor and financial manager receive training on the requirements of A-133 §400(d)(5) and OAM 30.40.00.PR. We also recommend OHCS immediately notify the Department of Environmental Quality of Finding 2011-03 identified in the Clackamas County "Audit of Federal Awards Performed in Accordance with U.S. Office of Management and Budget Circular A-133 and Supplemental Information for the Fiscal Year Ended June 30, 2011."

### Significant Deficiencies

#### Subrecipient Cost Allocation Plans Not Reviewed

Weatherization Assistance for Low-Income Persons (WAP), CFDA 81.042  
ARRA – Weatherization Assistance for Low-Income Persons (WAP-ARRA), CFDA 81.042  
Low-Income Home Energy Assistance (LIHEAP), CFDA 93.568  
Community Services Block Grant (CSBG), CFDA 93.569

Federal regulations state that OHCS, as a recipient of Federal awards, must monitor the activities of subrecipients, as necessary, to ensure that Federal awards are used for authorized

purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements. Federal cost principle circulars are applicable to OHCS subrecipients that receive pass-through funds in the WAP and CSBG programs. Cost principle circulars require the allocation of indirect costs through cost allocation plans or indirect cost rate proposals. OHCS is responsible for reviewing its subrecipients' cost allocation plans to ensure federal expenditures are allowable and in accordance with applicable cost principles.

Although LIHEAP is exempt from the provisions of OMB cost principle circulars, state cost principles do apply. The LIHEAP State Plan states that a subrecipient's comprehensive annual fiscal review will include the review of the cost allocation plan.

We reviewed seven subrecipient fiscal monitoring files and found:

- one file contained a federally approved indirect cost rate proposal, but it was expired;
- five files contained portions of cost allocation plans, but not complete plans. In addition, we found no evidence that the cost allocation plans were reviewed; and
- the last file contained no cost allocation plan. Instead, the file contained a memo that the subrecipient itself had reviewed its own cost allocation plan in 2006 and found it to be compliant.

OHCS' WAP and CSBG subrecipients may be in non-compliance with the cost principle circulars. OHCS is non-compliant with the LIHEAP State Plan, which states an annual fiscal review will consist of reviewing the subrecipient's cost allocation plan. Both instances may result in a subrecipient receiving pass-through federal funds for unallowable costs.

**We recommend** OHCS management develop procedures and provide training to staff to ensure the cost allocation plans of its subrecipients are sufficiently reviewed.

#### FFATA Reporting of Subawards needs improvement

Low-Income Home Energy Assistance (LIHEAP), CFDA 93.568  
Community Services Block Grant (CSBG), CFDA 93.569

The Federal Funding Accountability and Transparency Act (FFATA) requires OHCS, to report subawards that meet certain criteria. The fiscal year 2011 and 2012 LIHEAP and CSBG prime awards met the criteria for subaward reporting under FFATA. Subaward reports are required to be filed in the FFATA Subaward Reporting System (FSRS) no later than the end of the month following the month in which the subaward was made.

We reviewed a sample of subawards made for fiscal years 2011 and 2012 for LIHEAP and CSBG and found inaccuracies in the subaward amounts reported in 8 of the 12 LIHEAP reports. Rather than report each subaward made to each subrecipient, OHCS reported the total subaward made for that subrecipient. When they calculated the total subaward, they did not include the correct carryover allocation award made for that grant. The subaward amounts were not reviewed by program staff, who likely would have noticed the error. We also found that all LIHEAP and most of the CSBG reports were not filed by the required date.

The purpose of the FFATA is to improve transparency in government and provide the public with information on federal spending. The reported information is posted to USASpending.gov, a public website. Posting incorrect award information could potentially mislead the public and does not align with the goals of the FFATA.

**We recommend** OHCS management ensure that subaward amounts are appropriately reviewed for accuracy before submitting the reports. OHCS management should also ensure the subaward is reported by the end of the month following the month the award was allocated to the subgrantee.

#### LIHEAP Households Report, Data Inaccuracies

Low-Income Home Energy Assistance (LIHEAP), CFDA 93.568

Federal regulations require OHCS to submit an Annual Report on Households Assisted by LIHEAP. This report should include 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 filed in December 2012 for the period ending September 30, 2012, mistakenly overstated the number of households assisted for “EACH” and “ANY” type of LIHEAP assistance with at least one member who is either elderly, disabled, or a young child. OHCS staff used a query designed to obtain the data. The query results contained the information necessary to correctly prepare the report, but the information was not in the same format as the report. An error in transferring the information from the query to the report was not detected. As a result, the reported household amounts were overstated by between 22% and 32%. The statistical information in the report is used by Congress to determine future funding for the LIHEAP program and errors could result in overfunding the program.

**We recommend** OHCS management assign a second staff member familiar with this federal report to review it for reasonableness and accuracy before filing the report with the federal government. OHCS staff preparing the report should also retain copies of all supporting queries, data, and documentation used to prepare the report, including confirmation that the report was filed.

#### Procurement, Suspension & Debarment – Not Monitored

Low-Income Home Energy Assistance (LIHEAP), CFDA 93.568  
Community Services Block Grant (CSBG), CFDA 93.569

Federal regulations state that OHCS, as a recipient of federal awards, must monitor the activities of subrecipients, as necessary, to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements. One federal requirement is to ensure grantees use procurement procedures that conform to applicable federal law, regulations, and standards. In addition, subrecipients are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred.

We reviewed fiscal monitoring files and found that not all of the files contained a copy of the subrecipient’s procurement policy or evidence that the policy was reviewed by an OHCS monitor. Further, none of the monitoring files we reviewed showed evidence that the monitor reviewed for compliance with suspension and debarment requirements.

OHCS' subrecipients may be in non-compliance with federal and state procurement requirements. Additionally, subrecipients may have awarded federal funds to suspended or debarred parties.

**We recommend** OHCS management reinstate written monitoring procedures that include the review and documentation of procurement policies as well as testing of subrecipients' compliance with procurement and suspension and debarment 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.

#### **Federal Award Information Not Identified to Subrecipients**

Weatherization Assistance for Low-Income Persons (WAP), CFDA 81.042  
ARRA – Weatherization Assistance for Low-Income Persons (WAP-ARRA), CFDA 81.042  
Low-Income Home Energy Assistance (LIHEAP), CFDA 93.568  
Community Services Block Grant (CSBG), CFDA 93.569

Federal regulations and the Oregon Accounting Manual state that OHCS, as a pass through agency, shall identify federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year and name of federal agency.

In FY12, CFDA numbers and award years were identified on Notices of Allocation, CFDA titles were identified in Master Grant Agreements, and for Weatherization Assistance only, the name of the federal agency was also identified. The federal awarding agency was not identified to LIHEAP or CSBG subrecipients, and award names and numbers were not identified to any subrecipients.

As OHCS only identifies some of the required federal award information to its subrecipients, the pass-through entities may not have all the information needed to accurately complete their Schedule of Expenditures of Federal Awards.

**We recommend** OHCS management ensure subrecipients receive all required federal award information. If using Master Grant Agreements and Notices of Allocation to achieve this purpose, then the forms will need modification to contain this information going forward.

### **Prior Year Findings**

In the prior fiscal year, we reported a significant deficiency related to subrecipient monitoring of the LIHEAP program in a letter dated March 6, 2012. This finding can also be found in the Statewide Single Audit Report for the fiscal year ended June 30, 2011; see Secretary of State audit report number 2012-08, finding number 11-21. To correct the finding, management needed to issue program monitoring result letters to subrecipients on a timely basis. In the current year, management conducted no program monitoring; therefore, no letters were issued. This finding will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2012, with a status of no corrective action taken.

As a result of the fiscal year 2010 audit, we reported a significant deficiency related to the review of A-133 reports subrecipient monitoring in a letter dated March 8, 2011. This finding can also be found in the Statewide Single Audit Report for the fiscal year ended June 30, 2010; see Secretary of State audit report number 2011-06, finding number 10-20. During fiscal years 2011 and 2012, the department provided additional training and technical assistance to staff responsible for A-133 audits. This finding will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2012 with a status of partial corrective action taken.

The significant deficiencies and 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 significant deficiency and 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. The anticipated completion date.
- 3) The name(s) of the contact person(s) responsible for corrective action.

Please respond by March 15, 2013.

This communication is intended solely for the information and use of management and others within OHCS, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

Sincerely,  
OREGON AUDITS DIVISION

Julianne Kennedy, CPA  
Audit Manager

JK:nmj

cc: Diana Koppes, Business Operations Division Administrator  
Julie Cody, Program Delivery Division Administrator  
Gerold Floyd, Director of Recovery Act Management  
Michael J. Jordan, DAS Director, Chief Operating Officer