

# Secretary of State Audit Report

Kate Brown, Secretary of State

Gary Blackmer, Director, Audits Division



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## Keeping the State of Oregon Accountable, Fiscal Year 2013

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Every year, the State of Oregon's initial financial statements are misstated by millions of dollars due to errors in coding financial transactions or misinterpretation of Generally Accepted Accounting Principles (GAAP). Every year, multiple federal programs are out of compliance with federal requirements because the state's controls are not adequate to administer the program in accordance with the granting agency's requirements. As the state's independent auditors, we propose adjustments to correct errors and we report findings with recommendations to strengthen controls. The common errors we find in financial reporting and federal program compliance often continue from year to year and are slow to be resolved.

Data in the state's financial systems must be accurate. Accurate and reliable accounting is crucial to ensuring state dollars are properly spent and provides a beginning point for the next budget cycle. State agencies use the data in the financial system to create budget requests. The Oregon Legislature considers the budget requests and allocates the state's resources with the expectation that programs will be run efficiently to meet the needs of the citizens of Oregon in accordance with the legislatively approved budget. Without an accurate accounting of the revenues, expenditures, assets and liabilities of the State from the year just completed, the State doesn't have full information to build a budget for the future.

When we perform our audit, we look at financial transactions, evaluate the controls state agencies apply to ensure financial information is correct, offer recommendations for improvement, and present our professional opinion about the accuracy of the state's financial statements. Our annual financial and federal compliance audits provide the State with information about the completeness, accuracy and validity of the state's accounting information and whether federal programs are being administered properly.

For more information about audit results, see the reports listed on our website:

Oregon's Financial Statements:

<http://sos.oregon.gov/audits/Documents/2014-04.pdf>

Single Audit (including Federal Compliance) Results:

<http://sos.oregon.gov/audits/Documents/2014-09.pdf>

## Summary of the Financial Statement Audit

We reported 22 weaknesses related to internal controls over financial reporting for the fiscal year ended June 30, 2013. We proposed 31 audit adjustments at 10 state agencies to correct about \$1 billion in financial reporting errors. The proposed adjustments affected 73 different financial statement accounts, with four accounts requiring adjustments of at least \$300 million. One-third of the total number of adjustments was proposed for the Department of Human Services and Oregon Health Authority.

Some state agencies appear to rely on auditors to identify the mistakes that should be detected by their own control processes. We issued an unmodified opinion on the state's financial statements only after the \$1 billion in audit adjustments were made to correct the reported amounts. Large agencies that fail to implement effective controls increase the risk that decision makers will not have sufficient information to make informed decisions.

An unmodified opinion means the state's financial statements, as corrected, are fairly presented in conformance with Generally Accepted Accounting Principles. Figure 1 presents a summary of the state's financial statements for fiscal year 2013.

**Figure 1: Condensed Statement of Net Position and Activities, Fiscal Year 2013**

<b>Condensed Statement of Net Position</b>		<b>Condensed Statement of Activities</b>	
Governmental and Business-type Activities		Governmental and Business-type Activities	
As of June 30, 2013 (in millions)		For the fiscal year ended June 30, 2013 (in millions)	
<b>Assets</b>		<b>Program Revenues</b>	
Cash and Investments	\$ 9,251	Governmental activities	\$ 9,472
Receivables	5,616	Business-type activities	5,756
Capital assets, net of depreciation	15,771	<b>General Revenues</b>	
Other assets	1,727	Governmental activities	9,184
Total Assets	<u>32,365</u>	Business-type activities	(91)
<b>Deferred Outflows</b>	<u>30</u>	Total revenues	<u>24,321</u>
<b>Liabilities</b>		<b>Expenses</b>	
Long-term debt	12,345	Governmental activities	17,461
Other liabilities	3,089	Business-type activities	5,157
Total liabilities	<u>15,434</u>	Total expenses	<u>22,618</u>
<b>Net Assets</b>		Increase in Net Position	1,703
Invested in capital assets, net of related debt	12,020	Net Position - beginning	15,258
Restricted	3,345	Net Position - ending	<u>\$16,961</u>
Unrestricted	<u>1,596</u>		
Total Net Position	<u>\$16,961</u>		

## Summary of the Single Audit

### ***Significant control weaknesses identified in multiple federal programs***

We audited 17 federal programs representing \$7.4 billion in federal funds to determine if the state was compliant with federal program requirements.

We found the Department of Human Services, Oregon Health Authority, and Housing and Community Services Department did not establish adequate internal controls and were not materially compliant with federal requirements for five programs: Temporary Assistance for Needy Families, Foster Care, Adoption Assistance, Medicaid, and Low-Income Home Energy Assistance. We issued qualified opinions on these five programs in fiscal year 2013.

A program receives a qualified opinion if we find a department's internal controls will not reasonably prevent or detect significant noncompliance in a timely manner. For these programs, we identified control weaknesses and noncompliance in the areas of allowable activities, eligibility, period of availability, reporting, subrecipient monitoring, and special tests and provisions.

### ***Federal findings***

For fiscal year 2013, we issued 36 findings related to 13 audited federal programs at 7 state agencies. In addition, 22 findings reported in prior years remained uncorrected at the end of fiscal year 2013. Programs with findings are generally considered high-risk and require an audit in the following year. We also questioned whether Oregon's spending of approximately \$24.4 million was appropriate under federal program rules. Figure 2 identifies findings and questioned costs by state agency and figure 3 identifies findings by federal program.

**Figure 2: 2013 Findings & Questioned Costs by State Agency\***

<b>State Agency</b>	<b>Number of 2013 Findings</b>	<b>Questioned Costs</b>
Department of Human Services	18	\$ 24,118,064
Oregon Health Authority	6	87,930
Oregon Housing Department	4	-
Employment Department	2	-
Oregon Military Department	2	-
Oregon Department of Education	2	230,802
Department of Justice	2	-
Department of Administrative Services	0	-
Oregon Department of Transportation	0	-
	<b>36</b>	<b>\$ 24,436,796</b>

\*Auditors are not always able to determine questioned costs. Questioned costs may exist that we could not quantify due to lack of controls.

**Figure 3: 2013 Findings by Audited Federal Program**

Federal Program	Number of 2013 Findings	Federal Program Expenditures
Medicaid*	9	\$ 3,524,119,632
Temporary Assistance for Needy Families*	7	180,281,639
Foster Care Title IV-E*	5	82,693,664
Low-Income Home Energy Assistance*	4	39,026,248
Adoption Assistance*	4	37,943,140
Immunization Grants	3	41,634,343
Community Services Block Grant*	3	5,379,392
Unemployment Insurance	2	1,319,045,654
Child Nutrition*	2	150,117,844
Child Support Enforcement	2	47,817,198
Child and Adult Care Food*	2	32,777,584
Disaster Grants	2	23,543,725
Supplemental Nutrition Program	1	1,333,832,927
Highway Planning and Construction	0	426,345,031
Schools and Roads	0	63,870,114
State Grants for ACA Exchanges	0	47,200,657
Military Operations and Maintenance	0	33,829,371
	<b>46</b>	<b>\$ 7,389,458,163</b>

\*Note: Some findings pertain to multiple programs and therefore are counted more than once

### ***Finding history***

Of particular concern is the number of findings that continue to be uncorrected year after year. Figure 4 illustrates that every year we find issues with noncompliance or inadequate controls over compliance in the important areas of spending for costs that are allowable per the federal awarding agency (Activities Allowed and/or Allowable Costs) and are paid to eligible recipients (Eligibility). We also report concerns with the agencies' preparation of federal reports as well as monitoring of subrecipients (other entities to which Oregon provides federal funds in return for program services).

**Figure 4: Findings History by Type of Compliance Requirement\***

Compliance Requirement	2009	2010	2011	2012	2013	Total
Activities Allowed or Unallowed	1	0	0	3	3	<b>7</b>
Allowable Costs/Cost Principles	7	2	3	12	5	<b>29</b>
Cash Management	3	2	1	1	2	<b>9</b>
Eligibility	6	5	2	5	9	<b>27</b>
Equipment	0	0	0	1	0	<b>1</b>
Matching, Level of Effort, Earmarking	0	1	0	1	2	<b>4</b>
Period of Availability	0	0	0	0	2	<b>2</b>
Procurement, Suspension, & Debarment	1	2	1	3	0	<b>7</b>
Reporting	1	3	2	5	9	<b>20</b>
Subrecipient Monitoring	6	4	1	5	2	<b>18</b>
Special Tests and Provisions	1	1	1	7	8	<b>18</b>

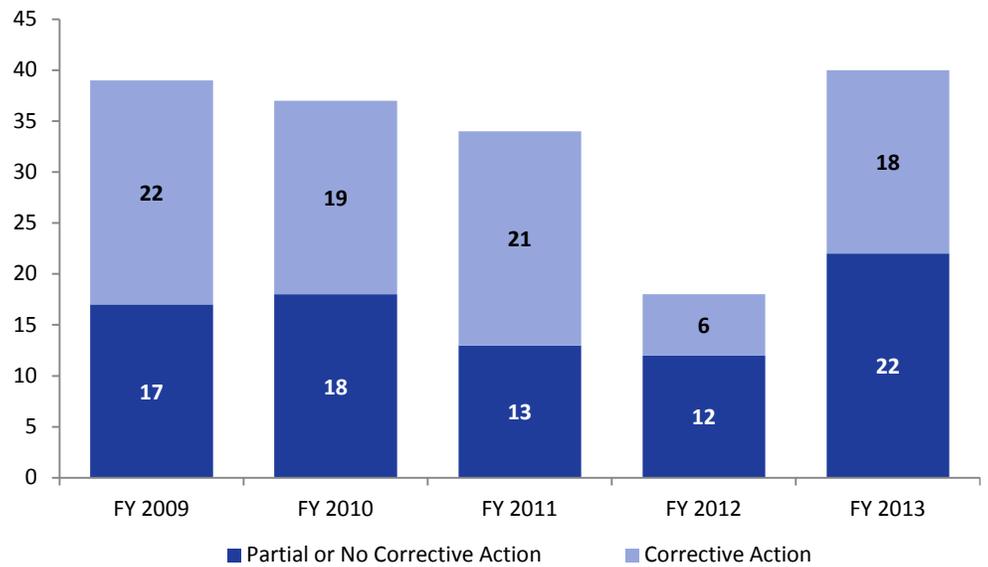
\*Note: Some findings pertain to multiple programs and therefore are counted more than once.

### ***Corrective action taken on federal findings***

Audit findings include recommendations that address noncompliance and internal control weaknesses. In response to audit findings and

recommendations, state agencies must design a corrective action plan to submit to the federal awarding agency. Federal agencies issue a decision on the findings including the questioned costs the state will be required to repay. During future audit periods, we are required to determine whether agencies have taken corrective, partial, or no action. Historically, many findings remain uncorrected from one year to the next, resulting in re-issuing many findings. Figure 5 presents the action taken over the last five years on findings that remained uncorrected at the end of each of the fiscal years shown.

**Figure 5: Action Taken on Prior Year Uncorrected Federal Findings**



## Background and Statistics

Specific procedures, prescribed by the Federal Office of Management and Budget (OMB), are used in determining the federal programs that are selected for audit each year. High risk programs are required to be audited, which includes programs with prior year findings, as are large expenditure programs that have not been audited in the most recent two years. At least 50% of total federal expenditures are required to be audited. However, due to internal control and compliance weaknesses, auditors had to increase that coverage to 74% of the state's total federal expenditures in order to meet audit requirements set by the OMB. Figure 6 shows the five-year history of audited programs. Programs audited in consecutive years were due to weaknesses identified in a prior year. When agencies do not correct program weaknesses, audit efforts must be diverted away from other areas that warrant attention.

**Figure 6: Program Audit History**

Federal Program	2009*	2010	2011	2012	2013
Medicaid <sup>1</sup>	X	X	X	X	X
Unemployment Insurance <sup>2</sup>	X	X	X	X	X
Temporary Assistance for Needy Families <sup>2</sup>	X	X	X	X	X
Low-Income Home Energy Assistance <sup>2</sup>	X	X	X	X	X
Supplemental Nutrition Assistance <sup>2</sup>	X	X	X	X	X
Community Services Block Grant <sup>2</sup>	X	X	X	X	X
Foster Care <sup>2</sup>	X			X	X
Child Nutrition <sup>2</sup>	X			X	X
Child and Adult Care Food <sup>2</sup>	X			X	X
Military Operations and Maintenance <sup>2</sup>	X			X	X
State Grants for ACA Exchanges <sup>2</sup>				X	X
Highway Planning and Construction <sup>3</sup>	X	X			X
Child Support Enforcement <sup>3</sup>	X	X			X
Adoption Assistance <sup>3</sup>	X	X			X
Immunization Grants <sup>3</sup>	X	X			X
Weatherization Assistance	X	X	X	X	
Title I Grants	X	X	X		
Vocational Rehabilitation	X	X	X		
State Children's Insurance Program	X	X	X		
Workforce Investment Act	X	X	X		
Special Education	X	X	X		
Child Care and Development	X	X	X		
Military Construction	X	X	X		
Clean Water Revolving Funds	X	X	X		
State Fiscal Stabilization	X	X	X		

\*Oregon received American Recovery and Reinvestment Act (ARRA) funds for multiple programs in 2009, which automatically made them high-risk and required selection for audit.

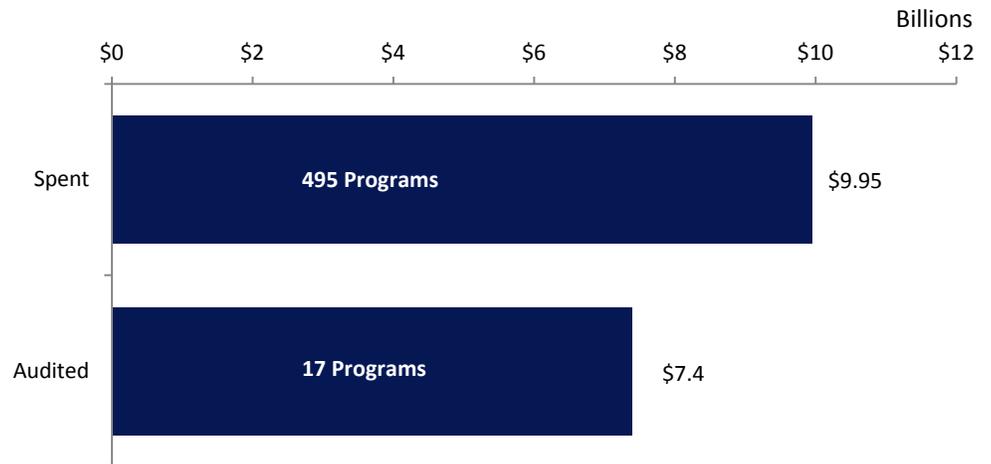
<sup>1</sup>Medicaid is noted as high-risk by the federal government, and requires audit each year, regardless of status of findings.

<sup>2</sup>Program considered high-risk in FY2013 due to uncorrected weaknesses in prior year.

<sup>3</sup>Program considered high-risk in FY2013 due amount of expenditures, and not audited in prior two years.

In fiscal year 2013 Oregon spent approximately \$9.95 billion in federal cash and noncash assistance (such as immunization vaccines and food) for 495 programs administered by 45 state agencies. We selected 17 programs to audit that are considered to be at the highest risk of misusing funds; 10 of those programs were determined high risk due to uncorrected findings identified in prior years. The 17 audited programs were administered by 9 state agencies and totaled \$7.4 billion in federal funds.

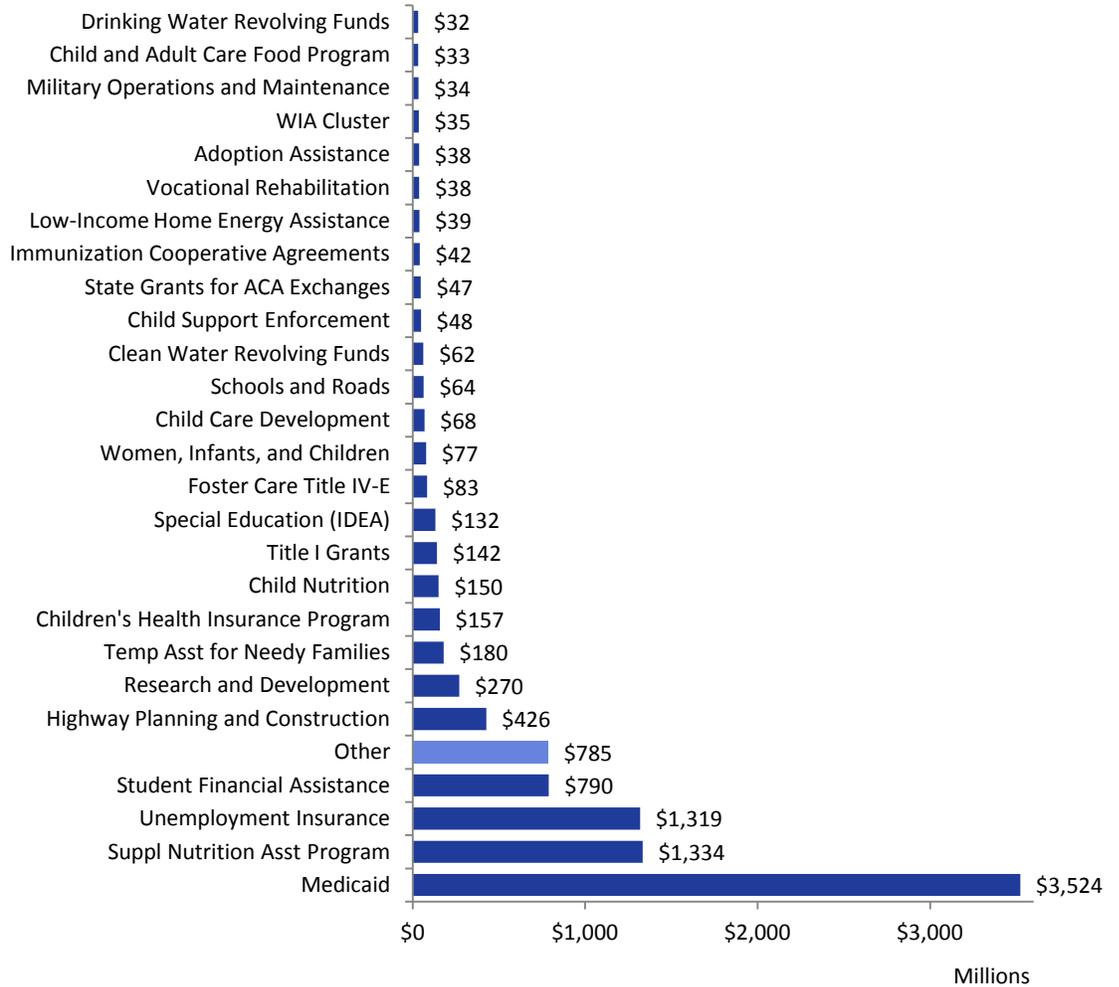
**Figure 7: Coverage of Fiscal Year 2013 Single Audit**



**Federal expenditures by federal program for fiscal year 2013**

Twenty-six of the 495 federal programs administered by the State of Oregon accounted for 92% of the state’s total federal expenditures in fiscal year 2013. Federal expenditures for the Medicaid program alone were \$3.5 billion or 35% of total federal expenditures. The Other category, shown in figure 8, combines 469 federal programs, each with expenditures less than \$30 million.

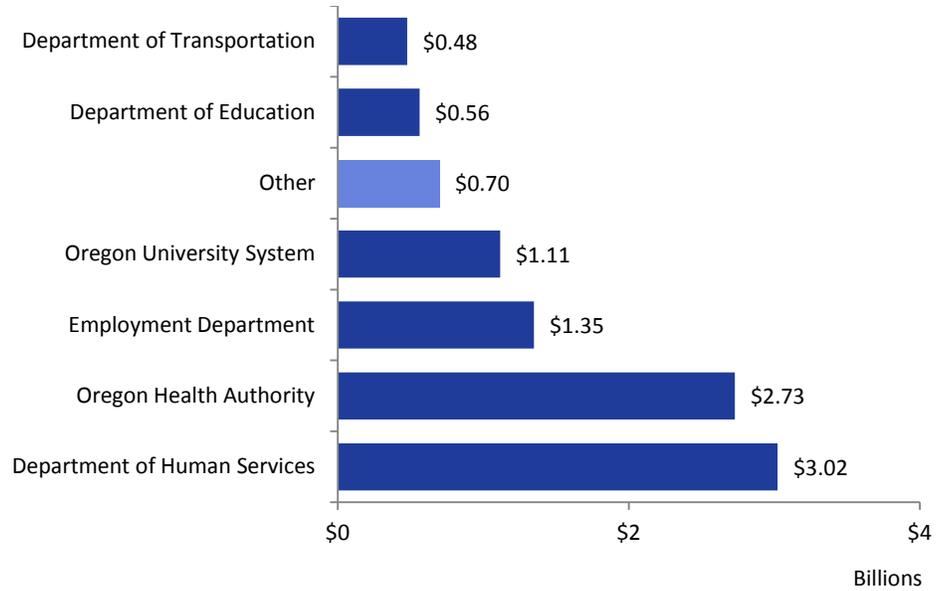
**Figure 8: Total Federal Expenditures by Federal Program, Fiscal Year 2013**



**Federal expenditures by state agency for fiscal year 2013**

Federal funds were expended by 45 state agencies during fiscal year 2013. Six of the 45 agencies accounted for \$9.3 billion or 93% of federal expenditures. The Department of Human Services and the Oregon Health Authority began operating as two separate agencies during fiscal year 2012. However, many of their functions are performed by a shared services arrangement. Combined, the two agencies accounted for \$5.8 billion, or 58%, of federal expenditures.

**Figure 9: Total Federal Expenditures by State Agency, Fiscal Year 2013**



## Authority, Purpose, and Scope

The State of Oregon's management is responsible for preparing annual financial statements, preparing a schedule of expenditures of federal awards, maintaining effective internal controls, and being accountable to the citizens of Oregon for its use of public monies.

The financial statements provide a comprehensive view of the state's financial activities during the fiscal year (Statement of Activities) and an overall picture of the state's financial position at the end of the fiscal year (Statement of Net Position). The management of each state agency is responsible for maintaining effective internal controls over financial reporting and ensuring financial information is complete and accurate. Statewide Accounting and Reporting Services (SARS), part of the Department of Administrative Services, is responsible for preparing the state's financial statements in accordance with Generally Accepted Accounting Principles, which are numerous and complex. SARS prepares the financial statements by providing guidance and training to agency staff throughout the year, compiling financial information from more than 100 state agencies, and making numerous accounting adjustments to ensure amounts are properly reported.

The Secretary of State Audits Division is responsible for expressing opinions on the state's financial statements. We conduct our work following *Government Auditing Standards* applicable to financial audits, which require that we plan and perform the work to obtain reasonable assurance about whether the financial statements are materially correct. The work includes examining evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by state management, as well as evaluating whether the financial statements are presented properly. The Audits Division audits the state's financial statements, schedule of federal awards, and major federal programs on an annual basis. We conduct the annual statewide Single Audit, which is required by the federal government for Oregon to continue to receive federal financial assistance. The purpose of the fiscal year 2013 audit was to:

- Determine if the amounts reported in the State of Oregon's financial statements were materially correct and adequately supported;
- Review internal accounting and compliance control procedures;
- Determine whether the Schedule of Expenditures of Federal Awards (SEFA) is presented fairly in relation to the state's financial statements; and
- Evaluate the state's major federal programs for compliance with applicable laws, rules, and regulations.

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## About the Secretary of State Audits Division

The Oregon Constitution provides that the Secretary of State shall be, by virtue of her office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of other state agencies within the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

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### Audit Team

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This report, a public record, is intended to promote the best possible management of public resources. Copies may be obtained from:

website: [sos.oregon.gov/audits](http://sos.oregon.gov/audits)

phone: 503-986-2255

mail: Oregon Audits Division  
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The courtesies and cooperation extended by officials and employees of the State of Oregon during the course of the Statewide Single Audit for fiscal year 2013 were commendable and sincerely appreciated.