

Office of the Secretary of State

Kate Brown
Secretary of State



Audits Division

Gary Blackmer
Director

255 Capitol St. NE, Suite 500
Salem, OR 97310

(503) 986-2255
fax (503) 378-6767

March 6, 2014

Erinn Kelley-Siel, Director
Department of Human Services
500 Summer Street NE E-15
Salem, Oregon 97301-1097

Dear Ms. Kelley-Siel:

We have completed audit work of the following federal program at the Department of Human Services (department) for the year ended June 30, 2013.

CFDA Number	Program Name	Audit Amount
10.551, 10.561	Supplemental Nutrition Assistance Program	\$ 1,333,793,013

This audit work was not a comprehensive audit of your federal program. We performed this federal compliance audit as part of our annual Statewide Single Audit. The Single Audit is a very specific and discrete set of tests to determine compliance with federal funding requirements, and does not conclude on general efficiency, effectiveness, or state-specific compliance issues. The Office of Management and Budget (OMB) Circular A-133 identifies internal control and compliance requirements for federal programs. Auditors review and test internal controls for all federal programs selected for audit and perform specific audit procedures only for those compliance requirements that are direct and material to the federal program under audit. For the year ended June 30, 2013, we determined whether the department substantially complied with the following compliance requirements relevant to the federal program.

Compliance Requirement	General Summary of Audit Procedures Performed
Allowable Costs/Cost Principles	Determined whether charges to federal awards were for allowable costs and that indirect costs were appropriately allocated.
Cash Management	Confirmed program costs were paid for before federal reimbursement was requested, or federal cash drawn was for an immediate need.

Compliance Requirement	General Summary of Audit Procedures Performed
Matching	Determined whether the minimum amount or percentage of contributions or matching funds was provided.
Period of Availability of Federal Funds	Determined whether federal funds were used only during the authorized period of availability.
Reporting	Verified the department submitted financial and performance reports to the federal government in accordance with the grant agreement and that those financial reports were supported by the accounting records.
Special Tests and Provisions	Determined whether the department complied with the additional federal requirements identified by the OMB.

Department management is responsible for establishing and maintaining effective internal control over compliance with program requirements. 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 that are appropriate in the circumstances for the purpose of expressing an 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 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. *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.

Our consideration of internal control over compliance was for the limited purpose described above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or

significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described below, that we consider to be a significant deficiency.

Significant Deficiency

Controls Over EBT Card Security Were Not Followed

Federal Awarding Agency:	U.S. Department of Agriculture
Program Title and CFDA Number:	Supplemental Nutrition Assistance Program (SNAP) Cluster (10.551, 10.561)
Federal Award Numbers and Year:	Undetermined
Compliance Requirement:	Special Tests and Provisions
Type of Finding:	Significant Deficiency, Noncompliance

Clients participating in the SNAP program receive benefits electronically via EBT cards. Federal regulations require that the department provide certain minimum security and control procedures over EBT cards. The department has established procedures to meet the minimum requirements, including limiting access to EBT card stock to authorized personnel, conducting monthly inventory counts of cards and utilizing logs to record destruction of returned cards. These procedures are communicated to branch offices responsible for issuing EBT cards to clients through the Field Business Procedures Manual.

We visited 12 of 120 branch offices to determine if the department's procedures were being followed. Based on our visits, the department did not adequately monitor the branch offices to ensure that they were following established procedures. Specifically, we found:

- Two branch offices kept EBT card stock secured, however, the key to the locked cabinet was kept in a location known to more than authorized personnel.
- Six branch offices did not always perform the monthly inventories of EBT card stock. It ranged from one branch not performing inventory for three months to another branch not completing them for the entire year.
- One branch did not use the destruction log and was not aware of the requirement to use the log.

Failure to follow the established procedures could result in the misappropriation and misuse of EBT cards.

We recommend department management ensure branch offices are aware of and follow the established procedures for securing EBT cards.

Prior Year Findings

In the prior fiscal year, we reported a significant deficiency related to the department's monitoring of SNAP system access. This finding can be found in the Statewide Single Audit Report for the fiscal year ended June 30, 2012; see Secretary of State audit report number 2013-07, finding number 11-25. During fiscal year 2013, the department developed controls

and procedures but they were not fully implemented. This finding will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2013, with a status of partial corrective action.

The significant deficiency, along with your response, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2013. Including your response 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 the significant deficiency includes the information specified by the federal requirement, and only if the response is received in time to be included in the audit report. The following information is required for the response:

- 1) Your agreement or disagreement with the finding. If you do not agree with the 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 name(s) of the contact person(s) responsible for corrective action.

Please provide your written response by Thursday, March 20, 2014.

The purpose of this communication is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

Sincerely,
OREGON AUDITS DIVISION

Kelly L. Olson, CPA
Audit Manager

cc: Jim Scherzinger, Chief Operating Officer
Eric Moore, Chief Financial Officer
Shawn Jacobsen, Controller
Dave Lyda, Chief Audit Officer
Sandy Dugan, CAF Field Services Administrator
Angela Munkers, APD Field Services Administrator
Michael J. Jordan, Director, Department of Administrative Services