Office of the Secretary of State

Secretary of State

Robert Taylor
Deputy Secretary of State

Audits Division

Gary Blackmer
Director

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Salem, OR 97310

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March 9, 2015

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

Dear Ms. Kelley-Siel:

We have completed audit work of the below federal program at the Department of Human Services (department) for the year ended June 30, 2014.

CFDA Number	Program Name	Audit Amount
10.551, 10.561	Supplemental Nutrition Assistance Program	$ 1,254,565,758

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, 2014, 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.
Matching	Determined whether the minimum amount or percentage of state contributions was provided.

Compliance Requirement	General Summary of Audit Procedures Performed
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.

Noncompliance

Noncompliance is a failure to follow compliance requirements, or a violation of prohibitions included in compliance requirements, that are applicable to a federal program. As described in the "Audit Findings and Recommendations" section, we identified noncompliance with federal requirements that is required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

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 certain deficiencies in internal control over compliance, as described below, that we consider to be significant deficiencies.

Audit Findings and Recommendations

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 Electronic Benefit Transfer (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 security requirements, which include limiting access to EBT card stock to authorized personnel, conducting monthly inventory counts of cards and utilizing logs to record destruction of returned cards. The department communicates these procedures to branch offices through its Field Business Procedures Manual.

We visited 15 of the 119 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:

- One branch office did not keep EBT cards secured at all times.
- One branch office did not use a stock control log to monitor its card inventory.
- One branch did not use the hard-copy destruction log and was not aware of the requirement to use the log.
- Ten branch offices did not always perform the monthly inventories of EBT card stock. Results ranged from one branch not performing inventory for one month to another branch not completing inventory counts for the entire year.

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.

Improve EBT Reconciliation Controls

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

Oregon uses Electronic Benefit Transfers to provide client benefits and is required by the federal government to have a system in place to reconcile all funds entering into, remaining in, and exiting from the system with the State's accounting system and EBT contractor records.

The department prepares various reconciliations to meet this requirement. We reviewed three months of reconciliations prepared by the department. Based on our review, two reconciliations contained errors that were not identified during the department's review process. As part of their review, the department relies on a check figure in the spreadsheets to indicate if there are any discrepancies between items being reconciled. In both instances, the check figure showed there were no discrepancies.

For one reconciliation, the error was due to a subtotal formula including an extra $982,117, which allowed everything to reconcile. For the second reconciliation, an unknown error existed in the "check figure" formula as it was clear the three subtotals did not reconcile by $61 million. After inquiry, the department provided support for the reconciling items and the reconciliations were corrected.

Failure to identify reconciling items could result in the department not appropriately identifying errors related to the EBT process.

We recommend department management improve its review process by considering implementing a more in depth review, ensuring critical formulas cannot be modified, and providing training to staff.

Expenditures Incurred Outside the Period of Availability

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:	7OR400OR4; 2014 7OR400OR0; 2014 7OR430OR4; 2014 7OR4004OR; 2014
Compliance Requirement:	Period of Availability
Type of Finding:	Significant Deficiency, Noncompliance

According to federal requirements, only costs resulting from obligations within the grant award year may be charged to the grant award.

The department's accounting records indicated $941,492 in federal expenditures were charged to the federal fiscal year 2014 grant award after the grant award year ended. We judgmentally selected transactions covering 98% of the dollars to verify the expenditures were obligated or incurred within the grant award timeframe. We identified one transaction totaling $146,257 that was inappropriately charged to the 2014 grant award.

The department primarily relies on timely inactivating accounting system codes to prevent charges outside the period of availability. The department may not inactivate codes if it is aware of allowable expenditures still needing to be charged or adjustments that need to be made. For codes not inactivated timely, the department relies on a review process to identify expenditures incorrectly coded to a grant after the period of availability. For the exception identified, the department did not timely inactivate the system coding and the error was not identified during the grant award review and adjustment process.

When codes are not inactivated timely and the review process does not identify errors, the risk increases for the department to charge costs to a grant award outside the period of availability.

We recommend department management ensure its review process identifies transactions charged to a grant award outside the period of availability.

Prior Year Finding

In the prior fiscal year, we reported a significant deficiency related to the department's controls over EBT card security in a letter dated March 6, 2014. This finding can also be found in the Statewide Single Audit Report for the fiscal year ended June 30, 2013; see Secretary of State audit report number 2014-09, finding number 2013-052. During fiscal year 2014, the department continued to implement changes to correct the finding. This finding will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2014, with a status of partial corrective action.

Each of the above findings, along with your response to the finding, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2014. 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 each finding 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 name(s) of the contact person(s) responsible for corrective action.

Please respond by Monday, March 16, 2015, and provide Rob Hamilton, Statewide Accounting and Reporting Services (SARS) Manager, a copy of your Corrective Action Plan.

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 communication 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 Michelle Rock, In-Charge Auditor, or Kelly Olson, Audit Manager, at (503) 986-2255.

Sincerely,

Office of the Secretary of State, Audits Division

cc: Jim Scherzinger, Chief Operating Officer
Eric Moore, Chief Financial Officer
Belit Burke, SNAP Program Manager
Dave Lyda, Chief Audit Officer
George Naughton, Acting Director, Department of Administrative Services