

Office of the Secretary of State

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Audits Division

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March 8, 2016

Clyde Saiki, Interim Director
Department of Human Services
500 Summer Street NE E-15
Salem, OR 97301-1097

Dear Mr. Saiki:

We have completed audit work of a selected federal program at the Department of Human Services (department) for the year ended June 30, 2015.

<u>CFDA Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
10.551, 10.561	Supplemental Nutrition Assistance Program (SNAP)	\$ 1,242,960,580.66

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, 2015, 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, Level of Effort, Earmarking	Determined whether the minimum amount or percentage of contributions or matching funds was provided, the specified service or expenditure levels were maintained, and the

	minimum or maximum limits for specified purposes or types of participants were met.
Period of Performance	Determined whether federal funds were used only during the authorized period of performance.
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 which 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 Finding and Recommendation

Improve Controls Over EBT Card Security

Federal Awarding Agency:	U.S. Department of Agriculture
Program Title and CFDA Number:	Supplemental Nutrition Assistance Program (SNAP) Cluster (10.551, 10.561)
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 (7 CFR section 274.5(c)(1) and 274.8(b)(3)) require that the department provide certain minimum security and control procedures over EBT cards including secure storage, bulk inventory control records, and periodic review and validation of inventory controls and records. The department has established procedures to meet the minimum security requirements, which include conducting monthly inventory of EBT cards, comparing to inventory counts balances on the stock control log and utilizing logs to record destruction of returned cards. The department communicates these procedures to branch offices through its Field Business Procedures Manual. Failure to follow the established procedures could result in the misappropriation and misuse of EBT cards.

We reviewed EBT card security processes for 21 of the 112 branch offices, which included reviewing whether inventory was conducted monthly for July 2014 through April 2015. Various EBT card security issues were identified at 15 of the branches. Specifically, we found:

- Ten branch offices did not always perform monthly inventories of EBT card stock. Of the ten months reviewed, 6 branches did not perform inventory for 1-3 of the months; 3 branches did not perform inventory for 4-6 of the months; 1 branch did not perform inventory for 8 of the months and was not using the stock control log for the first 6 months.
- One branch completed an inventory on a monthly basis, however, inventory was only related to the EBT bulk card stock, and did not include the daily stock.
- One branch office counts all EBT cards and records the counts on the stock control log. However, it does not complete the running balance column on the stock control log to compare the inventory counts to actual records.
- Five branches did not use the hard-copy destruction log to document destruction of EBT cards. Three of the five branches started using the destruction log in April.

Ensuring compliance with minimum security requirements helps prevent loss and misuse of EBT cards.

As part of Oregon's Single Audit, we reported a finding related to EBT card security in fiscal year 2013 (finding #2013-052) and fiscal year 2014 (2014-041). The department has provided various training to branch office personnel discussing the department's procedures for ensuring EBT card security, including detail related to inventory controls. The last training was provided in February 2015.

We recommend department management implement a process to verify that branch offices implemented the training and follow the established procedures for securing EBT cards.

Prior Year Findings

In the prior fiscal years, we reported noncompliance and internal control findings in the Statewide Single Audit Report related to the SNAP program. For the fiscal-year ended June 30, 2014; see Secretary of State audit report number 2015-05, and for the fiscal year ended June 30, 2013; see Secretary of State audit report number 2014-09.

During fiscal year 2015, the department continued to implement changes to correct the findings listed below. These findings will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2015 with a status of partial corrective action taken.

Finding Title	Prior Year Finding No.
Controls Over EBT Card Security Were Not Followed	2014-041
Controls Over EBT Card Security Were Not Followed	2013-052

The audit finding and recommendation above, along with your response, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2015. 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 of the contact person responsible for corrective action.

Mr. Saiki, Interim Director
Department of Human Services
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Please provide a response to Kelly Olson by March 14, 2016 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 or Kelly Olson 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, Interim Director, Department of Administrative Services