

Office of the Secretary of State

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March 28, 2014

The Honorable Ellen F. Rosenblum
Attorney General of Oregon
Oregon Department of Justice
1162 Court Street NE
Salem, OR 97301

Dear Attorney General Rosenblum:

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

<u>CFDA Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
93.563	Child Support Enforcement	\$ 47,811,319

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
Activities Allowed or Unallowed	Determined whether federal monies were expended only for allowable activities.
Allowable Costs/Cost Principles	Determined whether charges to federal awards were for allowable costs and that indirect costs were appropriately allocated.

Compliance Requirement	General Summary of Audit Procedures Performed
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 contributions or matching funds was provided.
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.
Subrecipient Monitoring	Determined whether the pass-through entity monitored subrecipient activities to provide reasonable assurance that the subrecipient administers federal awards in compliance with federal requirements.

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. As discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

Significant Deficiencies

Strengthen Controls Over Reporting

Federal Awarding Agency:	Department of Health and Human Services
Program Title and CFDA Number:	Child Support Enforcement, 93.563
Federal Award Number and Year:	1304OR4005, 1204OR4005; 2013
Compliance Requirement:	Reporting
Type of Finding:	Significant Deficiency, Noncompliance

Management is responsible for designing and implementing controls to provide reasonable assurance that reports of federal awards submitted to the federal awarding agency include all activity of the reporting period, are supported by underlying accounting records, and are fairly presented in accordance with program requirements.

We reviewed the Child Support Enforcement Program Expenditure Report for the quarter ended June 30, 2013, and were unable to determine if it was prepared entirely in accordance with program requirements. Our review determined that the agency considered about \$791,000 more in expenditures when preparing the report than the auditor could independently confirm existed in the accounting records. The department was unable to provide sufficient documentation to demonstrate that the report was complete and accurate.

Additionally, we found four immaterial errors within the report that led to incorrect amounts reported on the administration costs, fees and recoveries, and collections lines.

We recommend department management strengthen controls to ensure that the reported amounts are complete, accurate, and agree to accounting records. We also recommend management review the reports submitted for fiscal year 2013 and submit corrections to the federal awarding agency if necessary.

Improve Documentation of Cash Draws

Federal Awarding Agency: Department of Health and Human Services
Program Title and CFDA Number: Child Support Enforcement, 93.563
Federal Award Number and Year: 1304OR4005, 1204OR4005; 2013
Compliance Requirement: Cash Management
Type of Finding: Significant Deficiency

Federal regulations require program costs be paid with entity funds before reimbursement is requested from the federal government. The exception to the cost reimbursement basis is the advancement of federal monies to meet immediate cash needs. When federal funds are provided prior to the expending of entity funds, recipients must minimize the time elapsing between the advancement and use of federal funds. Management is also responsible for maintaining a system of internal controls designed to provide reasonable assurance of the achievement of program requirements. A system of internal controls includes retaining documentation that supports the transactions and having it readily available for examination.

We reviewed 9 of the 55 cash draws representing \$8,527,458 in federal funds that occurred during fiscal year 2013 and found that the supporting documentation retained for all 9 was insufficient to determine if the cash draw was for immediate cash needs and had been drawn in a manner to minimize the time elapsed between the draw and use of the funds.

We recommend department management improve procedures and controls to ensure cash draws are in compliance with federal program requirements and sufficient documentation is retained to support each cash draw.

The significant deficiencies, along with your responses, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2013. 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 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:

Your agreement or disagreement with the findings. 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.

The corrective action planned.

The anticipated completion date.

The name(s) of the contact person(s) responsible for corrective action.

Please respond by April 3, 2014.

Honorable Ellen F. Rosenblum, Attorney General
Oregon Department of Justice
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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 Sarah Anderson or me at (503) 986-2255.

Sincerely,

OREGON AUDITS DIVISION

Julianne Kennedy, CPA
Audit Manager

JK:SA

cc: Monica Brown, Chief Financial Officer
Kate Cooper Richardson, Child Support Program Director
Dawn M. Marquardt, Child Support Program Deputy Director
Erin McDaniel, Performance, Budget & Statistics Manager
Mitch Nauta, Administrative Services Division Policy & Procedures Analyst
Michael J. Jordan, Director, Department of Administrative Services