

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 14, 2014

Major General Daniel R. Hokanson, The Adjutant General  
Oregon Military Department  
1776 Militia Way SE  
Salem, Oregon 97309-5047

Dear General Hokanson:

We have completed audit work of the following federal program at the Oregon Military Department (department) for the year ended June 30, 2013. This program is administered by the department's Office of Emergency Management.

<u>CFDA Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)	\$ 23,024,455

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.

<b>Compliance Requirement</b>	<b>General Summary of Audit Procedures Performed</b>
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.
Cash Management	Confirmed program costs were paid for before

<b>Compliance Requirement</b>	<b>General Summary of Audit Procedures Performed</b>
	federal reimbursement was requested, or federal cash drawn was for an immediate need.
Eligibility	Determined whether only eligible organizations received assistance under federal programs, and amounts provided were calculated in accordance with program requirements.
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 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.
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.
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, as defined below. However, we identified certain deficiencies in internal control over compliance, as described below, that we consider to be significant deficiencies.

### **Significant Deficiencies**

#### **Federal Funding Accountability and Transparency Act Reporting Not Performed**

Federal Awarding Agency:	U.S. Department of Homeland Security
Program Title and CFDA Number:	Disaster Grants-Public Assistance (Presidentially Declared Disasters) (97.036)
Federal Award Number and Year:	1733DRORP00000001, 2008 1824DRORP00000001, 2009 1956DRORP00000001, 2011 1964DRORP00000001, 2011 4055DRORP00000001, 2012
Compliance Requirement:	Reporting
Type of Finding:	Significant Deficiency, Non-Compliance

Federal regulations require recipients of federal awards to report certain grant information in the Federal Funding Accountability and Transparency Act (FFATA) reporting system no later than the end of the month when awards are made to a subrecipient totaling \$25,000 or more.

When we inquired, the department had not filed any FFATA reports for fiscal year 2013 or two years prior. This was due, in part, to the department not having written policies and procedures in place and not designating staff to be primarily responsible for ensuring the required information was reported. As a result, the department was not in compliance with FFATA reporting requirements.

**We recommend** management develop and implement policies and procedures to ensure compliance with FFATA reporting requirements.

Report Preparation and Review Should Be Strengthened

Federal Awarding Agency:	U.S. Department of Homeland Security
Program Title and CFDA Number:	Disaster Grants-Public Assistance (Presidentially Declared Disasters) (97.036)
Federal Award Number and Year:	1733DRORP00000001, 2008 1824DRORP00000001, 2009 1956DRORP00000001, 2011 1964DRORP00000001, 2011 4055DRORP00000001, 2012
Compliance Requirement:	Reporting
Type of Finding:	Significant Deficiency

Federal regulations require the department to submit quarterly financial reports to the Federal Emergency Management Administration (FEMA) for each disaster grant it administers. The reports are to be complete, supported by underlying accounting records, and fairly presented in accordance with program requirements.

During the period audited, there were five open disasters. We sampled and tested 8 of 20 quarterly reports the department submitted during state fiscal year 2013. Six of the reports examined (75%) contained errors as the amounts on the reports did not agree to underlying documentation. Other amounts were not supported by underlying documentation, although department staff provided further explanations for the differences.

The reports were signed as having been reviewed prior to being submitted, but the review may not have been adequate due to out-of-date and unclear procedures that did not describe the supporting documentation needed to accompany the report for the reviewer's use. As a result, the errors were not detected and corrected before the reports were submitted.

**We recommend** department management update and implement its reporting procedures to clarify documentation needed to ensure complete and accurate reporting, and effective review.

Accruals Reporting Process Should Be Improved

Federal Awarding Agency:	U.S. Department of Homeland Security
Program Title and CFDA Number:	Disaster Grants-Public Assistance (Presidentially Declared Disasters) (97.036)
Type of Finding:	Significant Deficiency, Financial

Management is responsible for establishing internal controls to ensure transactions are accurate, properly recorded, and executed in accordance with management's authorizations. The quality of the state's financial information at year end depends on the accuracy and completeness of year-end closing activities, including accruals recorded in the last period of the fiscal year. In addition, documentation of transactions must be complete and accurate and must allow a transaction to be traced from the source documentation, through its processing, to the financial reports.

In fiscal year 2013, the department accrued approximately \$890,000 in federal expenditures for the disaster grant. Although the department's documentation for the accruals was sufficient, its process for preparing the accruals seemed informal and lacked management oversight; no evidence of management's review and approval of the accruals was documented. Furthermore, the same employee entered and released the accruals into the state accounting system.

Much of the condition described above was due, in part, to the department not having a written policy and methodology to provide staff with guidance for preparing accruals for this program. As a result, the department runs the risk of inconsistent accrual reporting from year to year, and the possibility of posting accruals that contain errors.

**We recommend** department management develop and implement written policy and methodology for preparing and reviewing accruals for the Disaster Grant to ensure accurate year-end reporting.

### **Other Matter**

We identified the following matter that is an opportunity for department management to strengthen internal control but is not considered to be a significant deficiency or a material weakness. This matter does not require a written response from management.

#### **Adjustments to State Management Costs Should Be Reviewed Prior to Posting**

Federal regulations allow the department to be reimbursed for certain state management costs associated with administering the Disaster Grants program, including payroll for staff who directly administer the program. During state fiscal year 2013 the department charged \$330,000 in payroll costs to the program.

Every month the department must adjust the amount of payroll charged to the grant based on actual staff hours worked. While the underlying timesheets that are used as the basis for the adjustments are reviewed and approved by management, there is no supervisory review or approval of the final adjustment entered into the accounting records. Further, the staff that prepares the adjustment is also responsible for posting the transaction to the accounting records.

The spreadsheets that are used to prepare the adjustments are complex, involving several manual entries. Without adequate supervisory review or segregating the preparation function from the posting function, the department increases the risk that errors will remain undetected and uncorrected, resulting in errors to the drawdown of federal funds.

**We recommend** management ensure adjustments to the accounting records are reviewed and posted by someone that did not also prepare the adjustment.

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:

- 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 Friday, March 21, 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 Amy Dale or me at (503) 986-2255.

Sincerely,  
OREGON AUDITS DIVISION

V. Dale Bond, CPA, CISA, CFE  
Audit Manager

cc: Dave Ferre, Deputy Director of State Affairs  
Karl Jorgenson, Director, Financial Administration Division  
Bryce Dohrman, Controller  
David Stuckey, Director, Office of Emergency Management  
Sean McCormick, OEM Section Director, Financial and Recovery  
Michael J. Jordan, Director, Department of Administrative Services