

Office of the Secretary of State

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March 21, 2014

Rob Saxton, Deputy Superintendent
Oregon Department of Education
255 Capitol Street NE, Suite 200
Salem, Oregon 97310-0203

Dear Mr. Saxton:

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

CFDA Number	Program Name	Audit Amount
10.558	Child & Adult Care Food Program (CACFP)	\$ 32,767,333
<u>Child Nutrition Cluster (CNC)</u>		
10.553	School Breakfast Program (SBP)	\$ 32,861,934
10.555	National School Lunch Program (NSLP)	108,489,569
10.556	Special Milk Program for Children (SMPC)	111,623
10.559	Summer Food Service Program for Children (SFSPC)	6,083,571

This audit work was not a comprehensive audit of your federal programs. 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 programs.

Compliance Requirement	General Summary of Audit Procedures Performed	Federal Program
Activities Allowed or Unallowed	Determined whether federal monies were expended only for allowable activities.	CNC, CACFP
Allowable Costs/Cost Principles	Determined whether charges to federal	CNC, CACFP

Compliance Requirement	General Summary of Audit Procedures Performed	Federal Program
	awards were for allowable costs.	
Cash Management	Confirmed program costs were paid for before federal reimbursement was requested, or federal cash drawn was for an immediate need.	CNC, CACFP
Eligibility	Determined whether only eligible sponsors receive assistance under federal programs.	CACFP
Matching, Level of Effort, Earmarking	Determined whether the minimum amount of matching funds was provided.	CNC
Reporting	Verified the department submitted financial and special reports to the federal government in accordance with the grant agreement and that those financial reports were supported by the accounting records.	CNC, CACFP
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.	CNC, CACFP
Special Tests and Provisions	Determined whether the department complied with the additional federal requirements identified by the OMB.	CNC

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

Significant Deficiencies

FNS-777 Report - Not Reporting All Activity in the Period

Federal Awarding Agency:	United States Department of Agriculture
Program Title and CFDA Number:	School Breakfast Program (SBP), CFDA 10.553 National School Lunch Program (NSLP), CFDA 10.555 Special Milk Program for Children (SMPC), CFDA 10.556 Summer Food Service Program for Children (SFSPC), CFDA 10.559 Child and Adult Care Food Program (CACFP), CFDA 10.558
Federal Award Number and Year:	7OR300OR3, 2013
Compliance Requirement:	Reporting
Type of Finding:	Significant Deficiency, Noncompliance

Federal guidelines require the department to use the FNS-777 form to report certain financial information related to the Child Nutrition Program Cluster and the Child and Adult Care Food program. Key items include total expenditures in excess of federal draws (unliquidated obligations) and the federal share of those obligations. Our review of the FNS-777 report for the period ending June 30, 2013, identified the following errors:

- Line 10h of the report did not include the unliquidated obligations, resulting in the following under-reported total expenditures:
 - NSLP \$3,632,519
 - CACFP 523,687
 - SBP 1,206,101
 - SFSPC 374,254
 - SMPC 2,190
- Line 10j of the report is used for reporting the federal share of the unliquidated obligations from line 10h; however, on the June 30, 2013, report no amounts were reported on this line.

Department management did not ensure the report was prepared in accordance with program requirements.

We recommend department management strengthen existing controls to ensure federal FNS-777 reports are prepared in accordance with federal guidelines; specifically, ensuring the reports include all expenditures of the reporting period.

Claims Paid Outside the Allowed Claim Window

Federal Awarding Agency:	United States Department of Agriculture
Program Title and CFDA Number:	National School Lunch Program (NSLP), CFDA 10.555 Child and Adult Care Food Program (CACFP), CFDA 10.558
Federal Award Number and Year:	7OR300OR3, 2013 7OR300OR3, 2012
Compliance Requirement:	Allowable Costs
Type of Finding:	Significant Deficiency, Noncompliance
Questioned Costs:	\$230,802

Federal regulations require sponsors participating in the Child Nutrition Program to claim reimbursement for meals to children within a specified timeframe of 60 days following the last day of the full month covered in the claim. Generally, late claims are not to be paid with federal program funds unless authorized by the federal Food and Nutrition Service office.

During fiscal year 2013, department management implemented a manual process to identify late claims processed in error by its online application. While implementing and refining the identification process, a number of late claims were missed and subsequently paid, resulting in the following overpayments:

- NSLP- Eight sponsors overpaid by approximately \$230,090
- CACFP- One sponsor overpaid by approximately \$712

We recommend department management strengthen its controls and ensure compliance with submission timeframe requirements of the program. **We also recommend** management work with the federal agency to resolve the overpayments.

Prior Year Finding(s)

In the prior fiscal year, we reported a material weakness related to the department's payment of late claims in a letter dated March 11, 2013. This finding can also 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 12-08. During fiscal year 2013, the department partially corrected the finding by running a weekly query prior to paying submitted claims. The query is designed to identify claims submitted after the due date; department staff then removes the payment authorization for the late claims. 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.

We also reported a material weakness, in the prior fiscal year, related to the department's under-reporting of program expenditures and advances on its FNS-777 reports in a letter dated March 11, 2013. This finding can also 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 12-09. During fiscal year 2013, the department partially corrected the finding by ensuring advances were reported. However, testing found that program expenditures continued to be under-reported. 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 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 Wednesday, March 26, 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 Alan Bell or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

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

cc: Susan MacGlashan, Assistant Superintendent
Sarah Drinkwater, Assistant Superintendent
Joyce Dougherty, Child Nutrition Program Director
Lynne Reinoso, Community Nutrition Programs Manager
Heidi Dupuis, School Nutrition Programs Manager
Tomas Flores, Financial Services Director
Dr. Samuel Henry, Chair, Oregon State Board of Education
Michael J. Jordan, Director, Department of Administrative Services