

Office of the Secretary of State



Audits Division

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March 10, 2015

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

Dear Mr. Saxton:

We have completed audit work of selected federal programs at the Oregon Department of Education (department) for the year ended June 30, 2014.

<u>CFDA Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
10.553	School Breakfast Program (SBP)	\$ 33,938,167
10.555	National School Lunch Program (NSLP)	115,824,619
10.556	Special Milk Program for Children (SMP)	130,922
10.558	Child and Adult Care Food Program (CACFP)	33,422,376
10.559	Summer Food Service Program for Children (SFSP)	6,217,631
84.010	Title I, Part A	144,269,779

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, 2014, 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.	SBP, NSLP, SMP, CACFP, SFSP, Title 1
Cash Management	Confirmed program costs were paid for before federal reimbursement was requested, or federal cash drawn was for an immediate need.	SBP, NSLP, SMP, CACFP, SFSP, Title 1

Compliance Requirement	General Summary of Audit Procedures Performed	Federal Program
Eligibility	Determined whether only eligible sponsors receive assistance under federal programs.	CACFP
Matching, Level of Effort, Earmarking	Determined whether the minimum amount or percentage of matching funds was provided, the specified expenditure levels were maintained, and the minimum or maximum limits for specified purposes were met.	SBP, NSLP, SMP, SFSP, Title 1
Period of Availability of Federal Funds	Determined whether federal funds were used only during the authorized period of availability.	Title 1
Reporting	Verified the department submitted special reports and FFATA reports to the federal government in accordance with the grant agreement and that those reports were supported by the department's records.	SBP, NSLP, SMP, CACFP, SFSP, Title 1
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.	SBP, NSLP, SMP, CACFP, SFSP, Title 1
Special Tests and Provisions	Determined whether the department complied with the additional federal requirements identified by the OMB.	NSLP, Title 1

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

Audit Findings and Recommendations

Improve Subaward Reporting Under the Federal Funding Accountability and Transparency Act

Federal Awarding Agency:	U.S. Department of Education U.S. Department of Agriculture
Program Title and CFDA Number:	School Breakfast Program, (10.553) National School Lunch Program, (10.555) Special Milk Program for Children, (10.556) Summer Food Service Program for Children, (10.559) Child and Adult Care Food Program, (10.558) Title 1, Part A (84.010)
Federal Award Numbers and Year:	7OR300OR3; 2014, S010A130037-13A; 2014
Compliance Requirement:	Reporting
Type of Finding:	Significant Deficiency; Noncompliance

The Title 1, Child Nutrition Cluster (consisting of SBP, NSLP, SMP & SFSP), and CACFP programs are subject to subaward reporting under the Federal Funding Accountability and Transparency Act (FFATA). Federal regulations require recipients of federal awards to report certain subaward information in the FFATA reporting system. Reports are required for all subrecipients receiving a subaward totaling \$25,000 or more and must be submitted no later than the end of the month following the month in which the subawards are made. Federal regulations also require that recipients of federal awards establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. This typically includes independent review of reports to assure accuracy and completeness of data and information reported.

Responsibility for monthly FFATA reporting lies solely with one employee for the Title 1 program and a second employee for the Child Nutrition Cluster and CACFP programs. The employees obtain data, and prepare and submit the reports for their respective programs. However, the department had not implemented controls to ensure the reports were accurately and completely prepared and submitted timely. As a result, the department has less assurance all required FFATA reports are submitted timely and are accurate and complete.

Also, during the audit, we found the department did not report any subaward information for the Child Nutrition Cluster or the Child and Adult Care Food Program, as required, for its FY 2014 federal awards. Furthermore, the department did not report subaward information in a timely manner for 62 subrecipients of its FY 2014 Title 1 federal award.

We recommend department management strengthen existing controls to ensure FFATA reports are independently reviewed prior to submission to the federal government. **We further recommend** department management ensure required reports are submitted for the Child Nutrition Cluster and CACFP FY 2014 federal awards.

Strengthen Controls For State Per Pupil Expenditure Calculations

Federal Awarding Agency:	U.S. Department of Education
Program Title and CFDA Number:	Title 1, Part A (84.010)
Federal Award Numbers and Year:	S010A120037-12A; 2013 S010A130037-13A; 2014
Compliance Requirement:	Reporting
Type of Finding:	Significant Deficiency, Noncompliance

Each year, the department must submit its average State Per Pupil Expenditure (SPPE) data to the National Center for Education Statistics. SPPE data are used by the U.S. Department of Education to make allocations under several federal programs, including Title 1, Part A. Federal guidance directs that expenditures from funds received under Title 1 should be excluded from the SPPE calculation results before submitting the data.

We found the department had not excluded Title 1 expenditures totaling \$14.8 million from its SPPE calculation results submitted during FY 2014. As a result, SPPE is overstated for the most recent reporting period. Management indicated the reported data were reviewed prior to submission, but clarified the review primarily consisted of trend analyses. Management added that it does not know why the difference was not identified.

We recommend department management strengthen controls to ensure all Title 1 program expenditures are excluded from its annual SPPE calculation results. We also recommend management submit a corrected report to the U.S. Department of Education, if necessary.

Improve Controls For Subrecipient Administrative Reviews

Federal Awarding Agency:	U.S. Department of Agriculture
Program Title and CFDA Number:	National School Lunch Program, (10.555)
Federal Award Numbers and Year:	7OR300OR3; 2014
Compliance Requirement:	Subrecipient Monitoring
Type of Finding:	Significant Deficiency, Noncompliance

Federal regulations require recipients of Federal funding to perform administrative reviews of subrecipients to ensure subrecipients are in compliance with federal requirements. The regulations define a number of critical and general areas these reviews should cover.

The department has developed and implemented an administrative review tool, consisting of an extensive series of questionnaires and checklists, to facilitate and standardize its subrecipient monitoring process. However, the extensive nature of the questionnaires and checklists creates the potential for important areas to be missed. Currently, the administrative review tool does not include a mechanism to assist department staff with verifying that all questions have been addressed. We found the administrative review tools were not always completed in their entirety. Specifically, 11 of 20 administrative review tools we examined were not complete or did not include evidence of monitoring for all critical and general areas of review.

We recommend department management strengthen existing controls to ensure the administrative review tools used during subrecipient monitoring are filled out completely and include evidence of monitoring for all critical and general areas of review.

Ensure All Required Administrative Reviews Are Completed

Federal Awarding Agency:	U.S. Department of Agriculture
Program Title and CFDA Number:	National School Lunch Program, (10.555)
Federal Award Numbers and Year:	7OR300OR3; 2014
Compliance Requirement:	Subrecipient Monitoring
Type of Finding:	Noncompliance

Federal regulations requiring recipients of federal funding to conduct administrative reviews of subrecipients every five years, were revised to every three years for fiscal year 2014 and thereafter. In an effort to allow states to focus on implementing updated meal patterns, certification, and validation review activities, the federal government allowed states to postpone administrative reviews that were scheduled for fiscal year 2013. Federal guidance directed that any subrecipient whose administrative review was postponed in 2013 or omitted during the prior five-year cycle must be reviewed during the first year of the new three-year cycle beginning fiscal year 2014.

During our review, we found eight subrecipients whose administrative reviews were scheduled for but not fully completed in fiscal year 2013, and were not subsequently reviewed during fiscal year 2014. Department management explained that while prioritizing administrative reviews for fiscal year 2014, it considered those eight as lower risk than subrecipients that had not been visited the prior year, and decided to focus on other subrecipients. Management also stated it did

not have staff available to do the rework that would have been necessary for the eight subrecipients.

We recommend department management ensure it completes all required subrecipient administrative reviews in compliance with federal regulations.

Prior Year Finding(s)

In the prior fiscal year, we reported two significant deficiencies in a letter dated March 21, 2014. These findings 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 numbers 2013-053 and 2013-054. Finding 2013-053 related to the department's payment of late claims. During fiscal year 2014, the department enhanced its CNPweb system, implemented weekly reviews prior to claim processing to identify ineligible claims, and took steps to resolve overpayments. Finding 2013-054 related to the department's underreporting of program expenditures on its FNS 777 reports. During fiscal year 2014, the department updated its reporting procedures to reflect a complete accounting of all expenditures and outstanding obligations on the FNS-777 for the period reported. The department also provided additional training to the staff responsible for reporting the FNS-777 expenditures. Both findings will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2014, with a status of corrective action taken.

The significant deficiencies, along with your responses, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2014. 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 March 18, 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.

Rob Saxton, Deputy Superintendent
Oregon Department of Education
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We appreciate your staff's assistance and cooperation during this audit. Should you have any questions, please contact Dale Bond, Audit Manager, or Alan Bell, Principal Auditor, at (503) 986-2255.

Sincerely,

Office of the Secretary of State, Audits Division

State of Oregon

cc: Jim Carlile, Assistant Superintendent
Sarah Drinkwater, Assistant Superintendent
Susan MacGlashan, Assistant Superintendent
Dave Cook, Interim Director of Federal Systems
Joyce Dougherty, Child Nutrition Program Director
Heidi Dupuis, School Nutrition Programs Manager
Lynne Reinoso, Community Nutrition Programs Manager
Tomas Flores, Financial Services Director
Dr. Samuel Henry, Chair, Oregon State Board of Education
George Naughton, Acting Director, Department of Administrative Services