

Office of the Secretary of State

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Audits Division

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(503) 986-2255

March 11, 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 a selected federal program 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>
84.027, 84.173	Special Education Cluster, Grants to States (IDEA, Part B) and Preschool Grants (IDEA Preschool)	\$120,314,430

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, 2014, 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.
Cash Management	Confirmed program costs were paid for before federal reimbursement was requested, or federal cash drawn was for an immediate need.

Compliance Requirement	General Summary of Audit Procedures Performed
Matching, Level of Effort, Earmarking	Determined whether the minimum amount or percentage of contributions or matching funds was budgeted, 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.

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 Findings and Recommendations

Ensure Subrecipient Monitoring Includes Federal Fiscal Requirements

Federal Awarding Agency:	US Department of Education
Program Title and CFDA Number:	Special Education Cluster (IDEA); 84.027 and 84.173
Federal Award Numbers and Year:	H027A110095, 2012; H173A110100, 2012; H027A120095, 2013; H173A120100, 2013; H027A130160, 2014; H173A130100, 2014
Compliance Requirement:	Subrecipient Monitoring
Type of Finding:	Significant Deficiency, Noncompliance

The department receives Federal funding for Special Education programs (IDEA, part B and Preschool) and passes funding to school districts and education service districts (ESD) through subgrants. Federal regulations require the department to ensure subrecipients are in compliance with the requirements of the special education programs and have accounting systems and internal controls adequate to administer the awards.

The department has a process in place to monitor and review subrecipients' compliance with specific program requirements, but the process does not consider subrecipients' accounting and internal control systems and certain fiscal requirements, such as accounting, reporting and procurement. The department focused primarily on program requirements and outcomes.

The department could not ensure that subrecipients had adequate accounting and internal control systems in place and complied with federal fiscal requirements. As a result, the funding awarded to the state as well as the districts could be at risk of sanctions or disallowances by the federal grantor agency due to noncompliance.

We recommend department management expand its monitoring processes to include subrecipients' accounting and internal control systems and federal fiscal requirements of the awards.

Improve Procedures for Subaward Reporting Under the
Federal Funding Accountability and Transparency Act

Federal Awarding Agency: US Department of Education
Program Title and CFDA Number: Special Education Cluster (IDEA); 84.027 and 84.173
Federal Award Numbers and Year: H027A110095, 2012; H173A110100, 2012;
H027A120095, 2013; H173A120100, 2013;
H027A130160, 2014; H173A130100, 2014
Compliance Requirement: Reporting
Type of Finding: Significant Deficiency

Federal regulations require recipients of federal awards to report certain subaward information in the Federal Funding Accountability and Transparency Act (FFATA) reporting system no later than the end of the month following the month subawards are made totaling \$25,000 or more. Federal regulations also require recipients of federal awards to establish and maintain internal control 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 included in the reports.

Responsibility for FFATA reporting lies solely with one employee who identifies, prepares and submits required reports. However, the department had not implemented a control to ensure those reports are accurately and completely prepared and submitted timely. This was due, in part, to the department not having assigned an employee to independently monitor or review this work.

As a result, the department has less assurance required FFATA reports are filed timely and are accurate and complete.

We recommend department management strengthen existing controls to ensure FFATA reports are independently reviewed prior to submission to the federal government.

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 and material weaknesses 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.

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Please respond by March 20, 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.

We appreciate your staff's assistance and cooperation during this audit. Should you have any questions, please contact Dale Bond, Audit Manager or Amy Dale, Principal Auditor, at (503) 986-2255.

Sincerely,

Office of the Secretary of State, Audits Division

State of Oregon

cc: Susan MacGlashan, Assistant Superintendent, Office of Finance & Administration
Tomas Flores, Financial Services Director
Sarah Drinkwater, Assistant Superintendent, Office of Learning Student Services
Dr. Samuel Henry, Chair, Oregon State Board of Education
George Naughton, Acting Director, Department of Administrative Services