

Office of the Secretary of State

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Audits Division

Gary Blackmer
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Salem, OR 97310

(503) 986-2255

March 12, 2015

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

Dear Mr. Saxton:

We have completed audit work related to the following federal program at the Department of Education (department) for the year ended June 30, 2014.

<u>CFDA Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
93.575 & 93.596	Child Care and Development Fund Cluster	\$11,965,093

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 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.

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 that 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 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

Improve Controls Over Period of Availability

Federal Awarding Agency:	U.S. Department of Health and Human Services
Program Title and CFDA Number:	Child Care and Development Fund Cluster (CFDA 93.575, CFDA 93.596)
Federal Award Numbers and Year:	2012G996005, FY2012 2013G999004, FY2013
Compliance Requirement:	Period of Availability
Type of Finding:	Significant Deficiency, Noncompliance
Questioned Costs:	\$122,977

In accordance with federal regulations, mandatory funds (CFDA 93.596) for states requesting matching funds shall be obligated in the fiscal year the funds are granted. Further, discretionary fund (CFDA 93.595) allotments shall be obligated in the fiscal year the funds are awarded or in the succeeding fiscal year.

We identified \$120,834 in payroll costs and \$2,143 in services and supplies costs that were charged to the grant award after the end of the obligation period. Beginning July 1, 2013, the department was transferred responsibility for administering this program from another state agency. Although the department established coding to ensure expenditures were charged to the correct grant award, the coding was not updated timely after the end of the federal fiscal year, allowing these costs to be charged after the obligation period. In addition, these costs were not identified during the department's grant review process.

We recommend department management ensure system coding is either updated timely or ensure the grant review process identifies costs charged after the end of an obligation period.

Improve Subaward Reporting under the Transparency Act

Federal Awarding Agency:	U.S. Department of Health and Human Services
Program Title and CFDA Number:	Child Care and Development Fund Cluster (CFDA 93.575, CFDA 93.596)
Federal Award Numbers and Year:	2014G996005, FY2014 2014G999004, FY2014 2014G999005, FY2014
Compliance Requirement:	Reporting
Type of Finding:	Significant Deficiency, Noncompliance

Under the Federal Funding Accountability and Transparency Act (FFATA), the department is required to collect and report information on each subaward or amendment of \$25,000 or more in federal funds in the FFATA Subaward Reporting System (system). The reporting must be done by the end of the month following the month in which the subaward was made.

We were unable to test compliance as no subaward reports were uploaded to the system during fiscal year 2014 for this program. During the fiscal year, the department passed-through over \$4 million to 59 subrecipients of which 35 were paid more than \$25,000 during the year. According to the department, part of the issue is because responsibility of administering the program was transferred to the department from another state agency beginning July 1, 2013. When this change occurred, the federal award was not available in the system for the department to report. However, the department could not provide any evidence that they made a “good faith” effort to comply with the reporting requirement by contacting the grantor.

By not meeting this reporting requirement, the department is in violation of federal requirements and the transparency objective of FFATA cannot be met as there is incomplete subaward information in the federal system.

We recommend department management ensure all FFATA reports for this program are submitted as required.

Strengthen Controls over Earmarking

Federal Awarding Agency:	U.S. Department of Health and Human Services
Program Title and CFDA Number:	Child Care and Development Fund Cluster (CFDA 93.575, CFDA 93.596)
Federal Award Numbers and Year:	2013G996005, FY2013
Compliance Requirement:	Earmarking
Type of Finding:	Significant Deficiency

For the 2013 grant award, the department’s award included dollars that are required to be spent on three types of targeted funds. One of the targeted funds was for activities to increase the quality of child care for infants and toddlers.

The department uses coding in the accounting system to identify and track the program’s expenditures related to various activities including targeted fund activities. As part of

preparing the quarterly financial report (ACF-696), the department monitors program expenditures to ensure matching, earmarking and targeted funds requirements are met.

We reviewed the final financial report submitted to the federal awarding agency in December 2014 for the 2013 grant award. Based on the report, it appeared the department had not expended \$169,099 as required for the infant and toddler targeted funds. Upon further review, we found the department's final financial report was not accurate as it did not include \$250,000 expended for these targeted fund activities. The department prepared the final report using summary data from both the department and the Department of Human Services (DHS). Prior to completion of the summary data the department made accounting entries to record the targeted fund expenditures made by DHS to a different grant year; however, the department did not notify DHS of these accounting entries. As a result, the DHS summary data and the final financial report did not include \$250,000 expended for infant and toddler targeted funds for the 2013 grant award.

We recommend department management notify DHS of accounting entries the department makes to data DHS reports to the department so DHS can update its accounting records and update the data reports it submits to the department. We also recommend the department update and resubmit the report for the 2013 grant award.

The audit findings and recommendations, 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 finding 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 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
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 Michelle Rock, in-charge auditor, or Kelly Olson, audit manager, at (503) 986-2255.

Sincerely,

Office of the Secretary of State, Audits Division

cc: Sue MacGlashan, Assistant Superintendent, Office of Finance & Administration
Thomas Flores, Financial Services Director
Megan Irwin, Early Learning Systems Acting Director
Pam Curtis, Chair, Early Learning Council
George Naughton, Acting Director, Department of Administrative Services