

**Office of the Secretary of State**

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March 10, 2016

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

Dear Mr. Noor:

We have completed audit work of a selected federal program at the Oregon Department of Education (department) for the year ended June 30, 2015.

<u>CFDA Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
84.010	Title 1 Grants to Local Educational Agencies	\$ 150,098,543

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, 2015, 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 and that 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.

<b>Compliance Requirement</b>	<b>General Summary of Audit Procedures Performed</b>
Level of Effort, Earmarking	Determined whether 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 Performance	Determined whether federal funds were used only during the authorized period of performance.
Reporting	Verified the department submitted performance reports to the federal government in accordance with the grant agreement and that those 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 Finding and Recommendations” section, we identified noncompliance with a federal requirement 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 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 a deficiency in internal control over compliance, as described below, that we consider to be a significant deficiency.

### **Audit Finding and Recommendations**

#### **Improve Accuracy of Maintenance of Effort Calculations**

<b>Federal Awarding Agency:</b>	U.S. Department of Education
<b>Program Title and CFDA Number:</b>	Title 1 Grants to Local Educational Agencies (84.010)
<b>Federal Award Numbers and Year:</b>	S010A140037-14B; 2015
<b>Compliance Requirement:</b>	Maintenance of Effort
<b>Type of Finding:</b>	Significant Deficiency, Noncompliance
<b>Questioned Costs:</b>	\$4,196

Federal regulations (34 CFR 299.5 and Section 9521 of ESEA) provide that a Local Educational Agency (LEA) may receive Title 1 program funds if the state educational agency determines the combined fiscal effort per student or the total expenditures of the LEA from state and local funds for free public education for the prior year was not less than 90% of the combined fiscal effort or total expenditures for the second prior year. If an LEA does not maintain adequate fiscal effort, the State must reduce the LEA's Title 1 funds allocated for the next award period. Federal compliance requirements specify an LEA's maintenance of effort (MOE) expenditures include expenditures such as instruction, attendance services, health services, and other support services. The requirements further specify MOE expenditures are not to include any expenditures for community services, capital outlay, debt services, and expenditures from federally-provided funds.

We reviewed the department's maintenance of effort (MOE) calculations for 197 LEAs that may receive Title 1 funds. Staff correctly identified all 4 LEAs that did not meet MOE requirements, but inadvertently omitted reducing 1 of the 4 LEAs' fiscal year 2015 award allocation. The department did not provide for an independent review of the MOE calculations and award reductions; therefore, an LEA was allocated and reimbursed \$4,196 more than it should have been.

Additionally, we tested a sample of 20 LEAs' MOE compliance calculations to verify expenditures used in the calculations agreed to audited financial statement amounts and included only allowable categories. Thirteen of the 20 LEAs' MOE calculations included capital outlay expenditures, contrary to federal regulations. These errors occurred because department staff did not exclude capital outlay expenditures from the financial amounts used to calculate MOE. We verified the 13 LEAs met MOE requirements in spite of the errors. However, by including capital outlay expenditures in the MOE calculations, the department increases the risk that Title 1 fund allocations may be incorrectly determined.

**We recommend** department management:

- recover the excess allocated Title 1 funds;
- ensure MOE calculations and award reductions are independently reviewed; and
- ensure financial expenditures used for the MOE calculations include only those allowed by federal regulations.

### **Prior Year Findings**

In the prior fiscal year, we reported noncompliance and internal control findings in the Statewide Single Audit Report related to Title 1 Grants to Local Educational Agencies; see Secretary of State audit report number 2015-05.

During fiscal year 2015, the department corrected these findings by establishing an independent review of the completeness and accuracy of Title 1 Federal Funding Accountability and Transparency Act reports, ensuring their timely submission, and strengthening controls to ensure all Title 1 program expenditures are excluded from annual State Per Pupil Expenditure calculation results. These findings, listed below, will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2015 with a status of corrective action taken.

Finding Title	Prior Year Finding No.
Improve Subaward Reporting Under the Federal Funding Accountability and Transparency Act	2014-044
Strengthen Controls for State Per Pupil Expenditure Calculations	2014-047

The audit finding and recommendations above, along with your response, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2015. Including your response 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 the significant deficiency includes the information specified by the federal requirement, and only if the response is received in time to be included in the audit report. The following information is required for the response.

- 1) Your agreement or disagreement with the finding. If you do not agree with the audit finding or believe corrective action is not required, include in your response an explanation and specific reasons for your position.

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- 2) The corrective action planned.
- 3) The anticipated completion date.
- 4) The name(s) of the contact person(s) responsible for corrective action.

Please provide a response to Dale Bond by March 18, 2016 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 Diane Farris or Dale Bond at (503) 986-2255.

Sincerely,

*Office of the Secretary of State, Audits Division*

cc: Rick Crager, Assistant Superintendent  
Dawne Huckaby, Assistant Superintendent  
Latham Stack, Internal Auditor  
Theresa Richards, Federal Systems Director  
Tomás Flores, Financial Services Director  
Miranda Summer, Chair, Oregon State Board of Education  
George Naughton, Acting Director, Department of Administrative Services