

Office of the Secretary of State

Jeanne P. Atkins
Secretary of State

Robert Taylor
Deputy Secretary of State



Audits Division

Mary Wenger
Interim Director

255 Capitol St. NE, Suite 500
Salem, OR 97310

(503) 986-2255

March 11, 2016

Salam Noor, Deputy Superintendent
Oregon Department of Education
255 Capitol Street NE, Suite 200
Salem, Oregon 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>
84.027, 84.173	Special Education Cluster, Grants to States (IDEA, Part B) and Preschool Grants (IDEA Preschool)	\$122,616,805

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.

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 Performance	Determined whether federal funds were used only during the authorized period of performance.
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.

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 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:	H027A120095, 2013; H173A120100, 2013; H027A130160, 2014; H173A130100, 2014; H027A140095, 2015; H173A140100, 2015
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 through subgrants. Federal regulation, 34 CFR 80.40(a), requires 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 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.

Without fiscal monitoring procedures, the department could not ensure that subrecipients had adequate accounting and internal control systems in place to comply 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 implement fiscal monitoring processes that ensure subrecipients have accounting and internal control systems adequate to administer federal fiscal requirements.

Improve Controls Over Period of Performance

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: H027A120095, 2013; H173A120100, 2013;
H027A130160, 2014; H173A130100, 2014;
H027A140095, 2015; H173A140100, 2015
Compliance Requirement: Period of Performance
Type of Finding: Significant Deficiency, Noncompliance
Questioned Costs: \$178,458

Federal regulations, 34 CFR 76.708 through 76.709, state that program funds are to be obligated within an established period of performance. Special Education funds are available for obligation beginning July 1 of the fiscal year the funds are appropriated though September 30 of the second following fiscal year.

The department charged about \$178,000 to the fiscal year 2015 grant award but the related expenditure was incurred prior to July 1, 2014, the beginning of the grant award's obligation period. The department has an established review process for expenditures; however, due to an error, the expenditure was coded to the wrong grant number. As a result, the expenditure was outside the period of performance.

We recommend department management ensure controls are properly designed to prevent recording expenditures outside the period of performance.

Prior Year Finding(s)

In the prior fiscal year, we reported noncompliance and internal control findings in the Statewide Single Audit Report related to the Special Education Cluster (IDEA); for the fiscal-year ended June 30, 2014, see Secretary of State audit report number 2015-05.

During fiscal year 2015, the department corrected one finding and made progress correcting the other finding. Prior year finding 2014-049 will be reported with a status of corrective action taken and 2014-48 with a status of partial corrective action taken in the Statewide Single Audit Report for the fiscal year ended June 30, 2015.

<u>Finding Title</u>	<u>Prior Year Finding No.</u>
Improve Procedures for Subaward Reporting Under the Federal Funding Accountability and Transparency Act	2014-049
Ensure Subrecipient Monitoring Includes Federal Fiscal Requirements	2014-048

The audit findings and recommendations above, along with your responses, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2015. Including your responses satisfies the federal requirement that management prepare a Corrective Action Plan

Salam Noor, Deputy Superintendent
Oregon Department of Education
Page 5

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 provide a response to Dale Bond, Audit Manager, 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 Michael Yamamoto or Dale Bond at (503) 986-2255.

Sincerely,

Office of the Secretary of State, Audits Division

cc: Rick Crager, Assistant Superintendent, Office of Finance & Administration
Sarah Drinkwater, Assistant Superintendent, Office of Student Services
Latham Stack, Internal Auditor
Tomás Flores, Financial Services Director
Miranda Summer, Chair, Oregon State Board of Education
George Naughton, Acting Director, Department of Administrative Services