

Office of the Secretary of State

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March 14, 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 selected federal programs 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>
10.558	Child and Adult Care Food Program (CACFP)	\$ 35,528,735
<u>Child Nutrition Cluster</u>		
10.553	School Breakfast Program (SBP)	36,772,264
10.555	National School Lunch Program (NSLP)	123,158,751
10.556	Special Milk Program for Children (SMP)	119,961
10.559	Summer Food Service Program for Children (SFSP)	6,871,174

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, 2015, 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
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

Compliance Requirement	General Summary of Audit Procedures Performed	Federal Program
Eligibility	Determined whether only eligible individuals and organizations receive assistance under federal programs, and amounts provided were calculated in accordance with program requirements.	SBP, NSLP, SMP, CACFP, SFSP
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.	SBP, NSLP, SMP, SFSP
Period of Performance	Determined whether federal funds were used only during the authorized period of performance.	SBP, NSLP, SMP, CACFP, SFSP
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.	SBP, NSLP, SMP, CACFP, SFSP
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
Special Tests and Provisions	Determined whether the department complied with the additional federal requirements identified by the OMB.	NSLP, SFSP

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. 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 a noncompliance finding as indicated below.

Audit Finding and Recommendation

Menu Certification Reimbursement Practices Should Align With Federal Regulations

Federal Awarding Agency:	U.S. Department of Agriculture
Program Title and CFDA Number:	Child Nutrition Cluster (10.553, 10.555, 10.556, 10.559)
Federal Award Numbers and Year:	7OR300OR3; 2014, 7OR300OR3; 2015
Compliance Requirement:	Subrecipient Monitoring
Type of Finding:	Noncompliance
Questioned Costs:	\$53,770

The Healthy, Hunger-Free Kids Act of 2010 provides for school food authorities (sponsors) to receive an additional reimbursement of 6 cents per lunch served if certified by the department to be in compliance with the new school meal patterns. Per federal guidance, the department should make a certification determination within 60 days of receipt of documentation from a sponsor. Federal guidance states the sponsor should be reimbursed the 6 cents beginning the month in which the compliant meals are served.

We analyzed data and identified sponsors where the department took more than 60 days to certify the sponsor's menu. According to the department, menu certification determinations were often delayed due to the amount of time required to help sponsors comply with federal certification requirements. The department reimbursed each sponsor for lunches served since the sponsor's original submission rather than when the sponsor's menu met compliance with the new school meal patterns. For example, if a sponsor submitted a menu for certification in February 2014 and the department certified it in December 2014, the department reimbursed the sponsor for lunches served back to February 2014. As shown in the table below, the menus for 29 sponsors were certified 4 to 19 months after the month the menus were submitted for certification.

Months to Certify Menu	Number of Sponsors	Total Reimbursements
4	3	\$ 435
5	5	\$ 668
8	2	\$ 842
9	4	\$ 21,896
10	2	\$ 642
11	3	\$ 2,750
13	2	\$ 5,376
15	2	\$ 14,237
16	4	\$ 4,154
17	1	\$ 2,108
19	1	\$ 661
Total	29	\$ 53,770

The department indicated that federal guidance received has, at times, been conflicting or unclear as to which meals should be reimbursed. Therefore, the department's position has been to reimburse the sponsor for lunches back to the month submitted for certification, which may not be allowable.

We recommend management obtain clarification from USDA as to whether it was appropriate to reimburse sponsors for menu certifications that took longer than 60 days to complete.

Prior Year Finding(s)

For the fiscal-year ended June 30, 2014, we reported a noncompliance and internal control finding related to the Child Nutrition Cluster; see Secretary of State audit report number 2015-05, finding 2014-046. During fiscal year 2015, the department took some steps to address this finding, which will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2015 with a status of partial corrective action taken.

The audit finding and recommendation 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 finding 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.
- 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 Kelly Olson by March 16, 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 Alan Bell or Kelly Olson at (503) 986-2255.

Sincerely,

Office of the Secretary of State, Audits Division

cc: Sarah Drinkwater, Assistant Superintendent
Rick Crager, Assistant Superintendent
Joyce Dougherty, Child Nutrition Program Director
Heidi Dupuis, School Nutrition Programs Manager
Lynne Reinoso, Community Nutrition Programs Manager
Tomas Flores, Financial Services Director
Miranda Summer, Chair, Oregon State Board of Education
George Naughton, Acting Director, Department of Administrative Services