

Office of the Secretary of State

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Audits Division

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(503) 986-2255

March 15, 2016

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

Dear Mr. Noor:

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

<u>CFDA Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
93.575 & 93.596	Child Care and Development Fund Cluster	\$14,920,073

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.
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

Compliance Requirement	General Summary of Audit Procedures Performed
	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.
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. *Material noncompliance* is a failure to follow compliance requirements or a violation of prohibitions included in compliance requirements that are applicable to a federal program that results in noncompliance that is material either individually or when aggregated with other noncompliance to the affected federal program. As described in the “Audit Findings and Recommendations” section, we identified noncompliance with federal requirements that we consider to be material noncompliance. Compliance with such requirements is necessary, in our opinion, for the department to comply with the requirements applicable to the Child Care and Development Fund Cluster.

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. As discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness.

Audit Findings and Recommendations

Improve Subrecipient Procedures

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:	2014G99WRFD; 2014G999004 2014G999005; 2014G996005 2015G999004; 2015G999005 2015G996005; 2015G99WREL
Compliance Requirement:	Subrecipient Monitoring
Type of Finding:	Material Weakness, Material Noncompliance

The department is responsible for ensuring subrecipients expend awards in accordance with applicable federal statutes, regulations, and the terms and conditions of federal awards. The program requires the department to ensure subrecipients determine individual eligibility according to the rules established by the program. In addition, the new uniform guidance provides that the department must evaluate each subrecipient's risk of noncompliance to determine the appropriate monitoring procedures.

The department has written agreements with a subrecipient outlining the roles and responsibilities for meeting the program requirements, including eligibility. During the fiscal year, the department's monitoring consisted of a review of subrecipient invoices for payments and all applications for eligibility. The department does not receive any of the support verified by the subrecipient. Also, the department does not retain the applications so we were unable to review them for eligibility requirements.

The award letter received by the department in April 2015 stated the new uniform guidance was applicable to those funds. The department was not aware that the new requirements became effective during fiscal year 2015 and, thus, it did not evaluate each subrecipient's risk of noncompliance.

There is a risk subrecipients may not be following the program's procedures in determining eligibility if no on-site verification of subrecipient process/documentation is performed.

We recommend department management develop and document a process to assess each subrecipient's risk of noncompliance and ensure monitoring procedures periodically include a review of a subrecipient's eligibility determination process including income.

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 significant deficiency and material weaknesses 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 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 Michelle Rock or Kelly Olson at (503) 986-2255.

Sincerely,

Office of the Secretary of State, Audits Division

cc: Megan Irwin, Early Learning Division Director
Rick Crager, Assistant Superintendent, Office of Finance & Administration
Thomas Flores, Financial Services Director
Dawn Woods, Child Care Director
Pam Curtis, Chair, Early Learning Council
George Naughton, Interim Director, Department of Administrative Services