



Robert Taylor
Deputy Secretary of State

Gary Blackmer
Director

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(503) 986-2255

March 2, 2015

Doug Decker, State Forester
Oregon Department of Forestry
2600 State St.
Salem, OR 97310

Dear Mr. Decker:

We have completed audit work of a selected federal program at the Department of Forestry (department) for the year ended June 30, 2014.

<u>CFDA Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
97.046	Fire Management Assistance Grant	\$38,214,579

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.
Procurement and Suspension and Debarment	Ensured payments were in accordance with contract requirements and that the vendor was not suspended or debarred from receiving federal funds.

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

Improve Determination of FEMA Eligible Costs

Federal Awarding Agency:	Federal Emergency Management Agency
Program Title and CFDA Number:	Fire Management Assistance Grant Program (97.046)
Federal Award Numbers and Year:	FEMA-5036-FM-OR, 2014; FEMA-5037-FM-OR, 2014 FEMA-5039-FM-OR, 2014; FEMA-5046-FM-OR, 2014 FEMA-5056-FM-OR, 2014
Compliance Requirement:	Allowable Costs/Allowable Activities
Type of Finding:	Significant Deficiency, Noncompliance
Questioned Costs:	\$1,518

The Fire Management Assistance Grant reimburses states and other entities for the costs associated with a declared incident (forest fire).

The process to identify FEMA eligible costs includes multiple calculations and considerations, which are supported by invoices, timesheets and other documents.

Although department staff performed reviews at various points in their process for determining FEMA eligible costs, our testing of 60 transactions identified 6 payments where the department incorrectly calculated FEMA eligible costs and subsequently requested reimbursement of federal funds for those costs. Errors identified in our sample both under and overstated eligible costs with a net overstatement of \$1,518. Projected, the errors result in questioned costs of over \$50,000.

We recommend department management improve their control processes to ensure they are effective to accurately determine FEMA eligible costs.

Improve Controls Over Procurement

Federal Awarding Agency:	Federal Emergency Management Agency
Program Title and CFDA Number:	Fire Management Assistance Grant Program (97.046)
Federal Award Numbers and Year:	FEMA-5036-FM-OR, 2014; FEMA-5037-FM-OR, 2014 FEMA-5039-FM-OR, 2014; FEMA-5046-FM-OR, 2014 FEMA-5056-FM-OR, 2014
Compliance Requirement:	Procurement, Suspension, and Debarment
Type of Finding:	Significant Deficiency

The Fire Management Assistance Grant (FMAG) provides assistance to states, and local and tribal governments for the mitigation, management, and control of fires on publicly or privately owned forests or grasslands that threaten such destruction as would constitute a major disaster.

The department manages fires, in part, through contracts with businesses and individuals for needed resources such as fire crews, services, equipment and land use.

We found department management could improve controls and processes over contracting and emergency procurement to ensure compliance with the federal grant and state requirements. Specifically, we found:

- The department did not ensure all contractors were not suspended or debarred prior to including those payments in their federal reimbursement requests.
- For non-emergency procurements, the department did not follow their process of completing contracting checklists, which ensure compliance with procurement requirements. The incomplete checklist was not identified by management as contract files are not reviewed.
- The department could not readily identify which of the 516 vendors used during the fire season were subject to contracting requirements because contract records are not maintained in a way that facilitates retrieval of this information. As a result, the department is less able to demonstrate compliance with relevant requirements of the federal grant.

We did not identify instances of non-compliance or questioned costs. However, without adequate controls, the department cannot ensure compliance with federal requirements and risks losing federal funds.

We recommend department management develop and implement procedures to ensure the review for suspension and debarment is performed for all required procurements prior to seeking federal reimbursement for those costs. We also recommend management administer and account for contracts in a way that accommodates review to ensure compliance with federal requirements.

The significant deficiencies, 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 the 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 respond by March 13, 2015, and provide Rob Hamilton, Statewide Accounting and Reporting Services (SARS) Manager, a copy of your Corrective Action Plan.

Doug Decker, State Forester
Oregon Department of Forestry
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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 Amy Dale or Julianne Kennedy at (503) 986-2255.

Sincerely,

Office of the Secretary of State, Audits Division

cc: Paul Bell, Deputy State Forester
Satish Upadhyay, Administrative Services Division Chief
Mark Hubbard, Finance Director
Nancy Hirsch, Fire Protection Division Chief
Toni Chambers, Fire Division Business Manager
Antonia Allen, Quality Assurance Program Director
Michael J. Jordan, Director, Department of Administrative Services