

Office of the Secretary of State

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March 25, 2014

Margaret Van Vliet, Director
Oregon Housing and Community Services
725 Summer Street NE, Suite B
Salem, OR 97301-1266

Dear Ms. Van Vliet:

We have completed audit work of the following federal programs at the Oregon Housing and Community Services (OHCS) for the year ended June 30, 2013.

<u>CFDA Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
93.568	Low-Income Home Energy Assistance Program (LIHEAP)	\$39,026,248
93.569	Community Services Block Grant (CSBG)	\$5,379,392

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, 2013, we determined whether OHCS substantially complied with the following compliance requirements relevant to the federal programs.

Compliance Requirement	General Summary of Audit Procedures Performed	Federal Program
Activities Allowed or Unallowed	Determined whether federal monies were expended only for allowable activities.	LIHEAP CSBG
Allowable Costs/Cost Principles	Determined whether charges to federal awards were for allowable costs and that indirect costs were appropriately allocated.	LIHEAP CSBG

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.	LIHEAP CSBG
Eligibility	Determined whether only eligible individuals and organizations receive assistance under federal programs, and amounts provided were calculated in accordance with program requirements.	LIHEAP
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.	LIHEAP CSBG
Period of Availability of Federal Funds	Determined whether federal funds were used only during the authorized period of availability.	LIHEAP CSBG
Reporting	Verified OHCS 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.	LIHEAP CSBG
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.	LIHEAP CSBG
Special Tests and Provisions	Determined whether OHCS complied with the additional federal requirements identified by the OMB.	CSBG

OHCS management is responsible for establishing and maintaining effective internal control over compliance with program requirements. In planning and performing our audit, we considered OHCS'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 OHCS'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 OHCS'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 material weaknesses and significant deficiencies.

Material Weaknesses

Strengthen Controls Over Cash Management

Federal Awarding Agency:	Department of Health and Human Services
Program Title and CFDA Number:	Low-Income Home Energy Assistance, CFDA 93.568 Community Services Block Grant, CFDA 93.569
Federal Award Number and Year:	2012G992201; 2012 2013G992201; 2013 2012G994002; 2012 2013G994002; 2013
Compliance Requirement:	Cash Management
Type of Finding:	Material Weakness

Federal regulations require program costs be paid with entity funds before reimbursement is requested from the federal government. The exception to the cost reimbursement basis is the advancement of federal monies to meet immediate cash needs. When federal funds are provided prior to the expending of entity funds, recipients must minimize the time elapsing between the advancement and use of federal funds. Oregon Housing and Community Services (OHCS) is responsible for ensuring its subrecipients minimize the time between the draw-down and disbursement of federal funds for federal program purposes.

OHCS program coordinators review "Requests for Funds" (RFFs) at a summary level prior to approving the federal draw-down of funds, but do not have any detail or supporting

documentation available to determine what the costs are or whether they were paid for with subrecipient funds prior to the reimbursement request or immediately after the advance of federal funds. OHCS management has attempted to implement cash management controls through the subrecipient monitoring function, which only occurs annually and provides little assurance that draws are on a reimbursement basis or that advances of federal funds are not held but expended soon after advanced.

By not ensuring cash management requirements are adhered to, OHCS may be providing cash advances for needs that are not immediate, reimbursing costs that have not yet occurred, and allowing subrecipients to be non-compliant with federal cash management requirements. This is a repeat finding.

We recommend OHCS management strengthen its controls to ensure RFFs are for allowable costs already paid for by the subrecipient, advances are made only to meet immediate cash needs, and advances are expended soon after advanced.

Review of Subrecipient Costs for Allowability Should be Improved

Federal Awarding Agency:	Department of Health and Human Services
Program Title and CFDA Number:	Low-Income Home Energy Assistance, CFDA 93.568
Federal Award Number and Year:	2012G992201; 2012 2013G992201; 2013
Compliance Requirement:	Subrecipient Monitoring, Activities Allowed
Type of Finding:	Material Weakness, Non-Compliance

Federal regulations state that Oregon Housing and Community Services (OHCS), as a recipient of federal awards, must monitor the activities of subrecipients, as necessary, to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements.

Management informed us that their control over allowable costs exists through the subrecipient monitoring function. We reviewed subrecipient monitoring files and found insufficient evidence to provide assurance that OHCS' control is effective at ensuring only allowable costs are reimbursed with federal funds. We reviewed financial information submitted by subrecipients through a sample of 40 Requests for Funds and identified the following instances of non-compliance, resulting in questioned costs that exceeded \$10,000:

- Reimbursement of depreciation charges for assets purchased with federal funds
- Reimbursement of unallowable interest and late payment fees;
- Reimbursement of costs attributed to LIHEAP that should have been funded by non-federal sources; and
- Lack of support for indirect costs allocated to LIHEAP.

By not performing sufficient and effective subrecipient monitoring, OHCS may not detect inappropriate use of federal funds.

We recommend OHCS management implement internal controls for subrecipient monitoring to ensure federal reimbursements are for allowable program activities.

Improve Controls Over Subrecipient Cost Allocation Plans

Federal Awarding Agencies:	Department of Health and Human Services
Program Title and CFDA Number:	Low-Income Home Energy Assistance, CFDA 93.568 Community Services Block Grant, CFDA 93.569
Federal Award Number and Year:	2012G992201; 2012 2013G992201; 2013 2012G994002; 2012 2013G994002; 2013
Compliance Requirement:	Subrecipient Monitoring, Allowable Costs
Type of Finding:	Material Weakness

Federal regulations state that Oregon Housing and Community Services (OHCS), as a recipient of federal awards, must monitor the activities of subrecipients, as necessary, to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements. Federal cost principle circulars are applicable to OHCS subrecipients that receive federal pass-through funds and require the use of cost allocation plans or indirect cost rates for costs that are allocated to federal programs. OHCS is responsible for reviewing its subrecipients' cost allocation plans to ensure expenditures charged to federal programs are allowable and equitably distributed.

We reviewed 17 subrecipient fiscal monitoring files and found that although all files included a copy of a cost allocation plan, there was no evidence that the plans were reviewed for reasonableness or were appropriately applied when determining program costs.

Through a sample of 40 Request for Funds, we reviewed financial information submitted by subrecipients and found that cost allocation plans varied in their complexity. The uniqueness and variety of cost allocation plans makes monitoring cost allocation transactions challenging and increases the risk that costs could be inappropriately allocated to federal programs.

Due to a lack of sufficient monitoring procedures to ensure subrecipients understand and apply appropriate cost allocation practices, OHCS' subrecipients may be routinely requesting reimbursement for allocated costs that are not allowable. This is a repeat finding.

We recommend OHCS management develop procedures and provide training to staff to ensure the cost allocation plans of its subrecipients are sufficiently reviewed to determine whether the cost allocation plans provide for an equitable allocation of allowable costs to federal programs.

Significant Deficiencies

Improve Subaward Reporting under the Transparency Act

Federal Awarding Agency:	Department of Health and Human Services
Program Title and CFDA Number:	Low-Income Home Energy Assistance, CFDA 93.568 Community Services Block Grant, CFDA 93.569
Federal Award Number and Year:	2012G992201; 2012 2013G992201; 2013 2012G994002; 2012 2013G994002; 2013
Compliance Requirement:	Reporting
Type of Finding:	Significant Deficiency, Non-Compliance

The Federal Funding Accountability and Transparency Act (FFATA) require Oregon Housing and Community Services (OHCS) to report subawards that meet certain criteria. The fiscal year 2013 LIHEAP and CSBG prime awards met the criteria for subaward reporting under FFATA. Subaward reports are required to be filed in the FFATA Subaward Reporting System (FSRS) no later than the end of the month following the month in which the subawards were made.

During our testing of CSBG we identified that four duplicate reports were submitted from February to May, resulting in OHCS over-reporting approximately \$9.6 million on the federal reporting website. According to OHCS staff, this situation was caused by a system glitch. Once we notified OHCS of the issue, they corrected the amount reported.

For the LIHEAP 2013 grant, OHCS was not able to upload subaward information to the federal website. Although OHCS properly identified that the subaward met the requirements for reporting, the grant award was not available on the federal website.

In order to be compliant with federal requirements, OHCS should have notified the federal agency of the system issue so the grant award could be properly entered into the federal system. The LIHEAP FFATA report was due in December 2012. OHCS took steps to notify the federal agency in December 2013.

We recommend management implement a procedure to ensure that reports are not duplicated on the federal reporting website, and that management contact the federal awarding agency in a timely manner if they are unable to submit a report.

Other Deficiencies

In addition, we identified the following other matters that are an opportunity to strengthen internal control but are not considered to be significant deficiencies or material weaknesses. These other matters do not require a written response from management.

Perform Monitoring of Procurement at the Subrecipient Level

Low-Income Home Energy Assistance, CFDA 93.568
Community Services Block Grant, CFDA 93.569

Federal regulations state that Oregon Housing and Community Services (OHCS), as a recipient of federal awards, must monitor the activities of subrecipients, as necessary, to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements. Federal regulations also state that all recipients shall establish written procurement procedures.

We reviewed fiscal monitoring files and found no evidence that OHCS verified the subrecipients complied with procurement policy when contracting. OHCS' subrecipients may be non-compliant with procurement requirements. This is a repeat finding.

We recommend OHCS management ensure that the subrecipient monitor verify that procurement policies align with federal requirements and that the subrecipient complied with the policies. We recommend this review be adequately documented in the subrecipient monitoring files.

Improve Monitoring of Equipment

Low-Income Home Energy Assistance, CFDA 93.568

Federal regulations state that OHCS is required to maintain accurate records for equipment acquired with federal funds. We reviewed 19 subrecipient monitoring files to determine if equipment was adequately tracked and monitored and found an item of equipment purchased with federal funds that was not identified on OHCS' master equipment list.

By not performing sufficient and effective subrecipient monitoring, OHCS may not detect inappropriate use of federal funds or inadequate tracking and monitoring of equipment.

We recommend OHCS management implement internal controls to ensure equipment purchased with federal funds is properly tracked and monitored.

Prior Year Findings

In the prior fiscal year, we reported material weaknesses, significant deficiencies and non-compliance findings for the LIHEAP, CSBG and Weatherization (WAP) programs to you in a letter dated March 8, 2013. These findings can also be found in the Statewide Single Audit Report for the fiscal year ended June 30, 2012; see Secretary of State audit report number 2013-07. During fiscal year 2013, OHCS made progress in correcting these findings. These findings will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2013, with a status of partial corrective action taken. The specific prior year findings still outstanding are listed in the following table:

Federal Program	Finding Title	Prior Year Finding No.
LIHEAP & CSBG, WAP	Lack of Controls over Equipment	12-10 (Material Weakness)
LIHEAP & CSBG	Program Activities/Costs Not Reviewed for Allowability	12-14 (Material Weakness)
LIHEAP & CSBG	Cash Management - Timing/Immediacy Not Reviewed	12-15 (Material Weakness)
WAP, WAP-ARRA, LIHEAP & CSBG	Subrecipient Cost Allocation Plans Not Reviewed	12-12 (Significant Deficiency)
LIHEAP & CSBG	Procurement, Suspension & Debarment – Not Monitored	12-18 (Significant Deficiency)

The significant deficiencies and material weaknesses, along with your responses, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2013. 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 each significant deficiency and material weakness 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 names of the contact persons responsible for corrective action.

Please provide your response to us by April 3, 2014.

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 report is not suitable for any other purpose.

Margaret Van Vliet, Director
Oregon Housing and Community Services
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We appreciate your staff's assistance and cooperation during this audit. Should you have any questions, please contact Michelle Rock or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

Julianne Kennedy, CPA
Audit Manager

cc: Diana Koppes, Business Operations Division Administrator
Julie Cody, Program Delivery Division Administrator
Michael J. Jordan, Director, Department of Administrative Services