



Robert Taylor
Deputy Secretary of State

Gary Blackmer
Director

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March 6, 2015

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 selected federal program at the Oregon Housing and Community Services (department) for the year ended June 30, 2014.

<u>CFDA Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
93.568	Low-Income Home Energy Assistance (LIHEAP)	\$ 35,016,252

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.
Cash Management	Confirmed program costs were paid for before federal reimbursement was requested, or federal cash drawn was for an immediate need.
Eligibility	Determined whether only eligible individuals and organizations

Compliance Requirement	General Summary of Audit Procedures Performed
	receive assistance under federal programs, and amounts provided were calculated in accordance with program requirements.
Earmarking	Determined whether the maximum limits for specified purposes were met.
Period of Availability of Federal Funds	Determined whether federal funds were used only during the authorized period of availability.
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 that 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. As discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

Audit Findings and Recommendations

Improve Reviews of Subrecipients

Federal Awarding Agency:	Department of Health and Human Services
Program Title and CFDA Number:	Low-Income Home Energy Assistance, CFDA 93.568
Federal Award Numbers and Year:	2014G992201, 2014; 2014G995623, 2014 2013G992201, 2013; 2013G994002, 2013
Compliance Requirement:	Activities Allowed or Unallowed; Earmarking; Subrecipient Monitoring
Type of Finding:	Material Weakness

Federal regulations state that program funds may only be used for certain allowable activities. In addition, the regulations specify “earmarking” limits on the use of these funds. The department passes most of its LIHEAP funds through to subrecipients who perform the majority of the program activities. Department management is responsible for monitoring subrecipients, as necessary, to ensure compliance with program requirements including allowable activities and earmarking requirements.

We reviewed monitoring files and found that, specific to fiscal monitoring, there was insufficient evidence of adequate monitoring to provide assurance that only costs from allowable activities are reimbursed with federal funds or that limitations were not exceeded. This is a repeat finding.

We recommend department management strengthen its fiscal monitoring to ensure federal reimbursements are for allowable program activities and required limitations are not exceeded.

Improve Reviews of Subrecipient Allocated Costs

Federal Awarding Agency: Department of Health and Human Services
Program Title and CFDA Number: Low-Income Home Energy Assistance, CFDA 93.568
Federal Award Numbers and Year: 2014G992201, 2014; 2014G995623, 2014
2013G992201, 2013; 2013G994002, 2013
Compliance Requirement: Allowable Costs/Cost Principles; Subrecipient
Monitoring
Type of Finding: Material Weakness

Federal regulations require the department, as a recipient of federal awards, to monitor the costs of subrecipients, as necessary, to ensure that federal awards are used for allowable costs in compliance with laws, regulations, and the provisions of contracts or grant agreements. Federal cost principle circulars are applicable to department 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. The department is responsible for reviewing its subrecipients' cost allocation plans to ensure subrecipients follow general cost principles, including gaining assurances that expenditures charged to federal programs are reasonable, equitably distributed, and adequately documented.

We reviewed four subrecipient fiscal monitoring files and found that although all files included a copy of a cost allocation plan that was mathematically verified, there was no evidence that the plans were reviewed to ensure general cost principles were applied. This is a repeat finding.

We recommend department 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 are in compliance with applicable cost principles.

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
Federal Award Numbers and Year: 2014G992201, 2014; 2014G995623, 2014
2013G992201, 2013; 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. The department is responsible for ensuring its subrecipients minimize the time between the draw-down and disbursement of federal funds for federal program purposes. We found the department does not have adequate controls to ensure this occurs. Department management is developing a new process for reviewing subrecipient requests for funds to ensure the requests are made on a reimbursement basis and

only for authorized costs. This new process was not implemented during fiscal year 2014. This is a repeat finding.

We recommend department management ensure adequate controls are implemented to ensure subrecipient requests for funds are in compliance with federal cash management requirements.

Other Matter

In addition, we identified the following other matter that is an opportunity to strengthen internal control but is not considered to be a material weakness or significant deficiency in controls over compliance. This other matter does not require a written response from management.

Strengthen Controls Over Reporting

Federal Awarding Agency:	Department of Health and Human Services
Program Title and CFDA Number:	Low-Income Home Energy Assistance, CFDA 93.568
Federal Award Numbers and Year:	2014G992201, 2014; 2014G995623; 2014
Compliance Requirement:	Reporting
Type of Finding:	Other Matter

Federal regulations require the department to submit certain reports as a recipient of LIHEAP funds, including the Carryover and Reallotment Report and the Federal Funding Accountability and Transparency Act sub-award reports. We tested these reports during our audit and found the following:

- Management indicated accuracy of the Carryover and Reallotment Report is ensured through a separate review by program staff. However, we were unable to verify this review occurred as evidence of the review was not retained. We were able to verify the accuracy of the report.
- We found the department did not have a control in place to ensure sub-award reports were submitted timely. We reviewed a sample of four sub-awards and found none of the reports were submitted timely. However, we were able to verify that accurate reports were submitted.

We recommend management strengthen controls over reporting to ensure required reports are accurate and submitted timely.

Prior Year Findings

In the prior fiscal year, we reported material weaknesses, significant deficiencies and non-compliance findings to you in a letter dated March 25, 2014. These findings can also be found in the Statewide Single Audit Report for the fiscal year ended June 30, 2013; see Secretary of State audit report number 2014-09. These findings will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2014, with a status of partial corrective action taken. The specific prior year findings still outstanding are listed in the following table:

Finding Title	Prior Year Finding No.
Subrecipient Cost Allocation Plans Not Reviewed	2012-012
Program Activities/Costs Not Reviewed for Allowability	2012-014
Cash Management - Timing/Immediacy Not Reviewed	2012-015
Review of Subrecipient Costs for Allowability Should be Improved	2013-046
Strengthen Controls Over Cash Management	2013-047
Improve Controls Over Subrecipient Cost Allocation Plans	2013-048

The material weaknesses, 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 each 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 name(s) of the contact person(s) responsible for corrective action.

Please respond by March 18, 2015 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 Wendy Hewitt or Julianne Kennedy at (503) 986-2255.

Sincerely,

Office of the Secretary of State, Audits Division

JK:wmh

cc: Caleb Yant, Assistant Director of Financial Services
Claire Seguin, Assistant Director of Housing Stabilization
Sandra Flickinger, Financial Services Section Manager
Tim Zimmer, Energy and Weatherization Section Manager
George Naughton, Acting Director, Department of Administrative Services