

**Office of the Secretary of State**

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**Audits Division**

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February 29, 2016

Margaret Van Vliet, Director  
Oregon Housing and Community Services Department  
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 (department) for the year ended June 30, 2015.

<u>CFDA Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
93.568	Low-Income Home Energy Assistance (LIHEAP)	\$ 33,605,176

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.

<b>Compliance Requirement</b>	<b>General Summary of Audit Procedures Performed</b>
Cash Management	Confirmed program costs were paid for before federal reimbursement was requested, or federal cash drawn was for an immediate need.
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.

<b>Compliance Requirement</b>	<b>General Summary of Audit Procedures Performed</b>
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 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. 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:** U.S. Department of Health and Human Services  
**Program Title and CFDA Number:** Low-Income Home Energy Assistance, CFDA 93.568  
**Federal Award Numbers and Year:** 2015G992201; 2015, 2015G992205; 2015,  
2015G992212; 2015, 2014G992201; 2014,  
2014G995623; 2014  
**Compliance Requirement:** Subrecipient Monitoring  
**Type of Finding:** Material Weakness, Noncompliance

Federal regulations require the department, as a recipient of federal awards, to monitor the activities of subrecipients to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements. For the LIHEAP program, this includes monitoring subrecipients to ensure:

- Program funds are used for certain allowable activities;
- Specified “earmarking” limits are not exceeded; and
- Subrecipient cost allocation plans are in compliance with applicable cost principles.

We found the department does not have adequate controls to ensure only costs for allowable activities are reimbursed with federal funds; limitations are not exceeded; and ensure subrecipients follow general cost principles, including gaining assurances that expenditures charged to federal programs are reasonable, equitably distributed, and adequately documented.

This has been an ongoing finding since fiscal year 2012 due to a lack of adequate resources dedicated by the department to develop and maintain adequate controls. The department has been in the process of updating its fiscal monitoring controls but has yet to fully implement changes to ensure compliance with program requirements.

**We recommend** department management complete and implement an adequate fiscal monitoring process to ensure federal reimbursements are for allowable program activities, subrecipient cost allocation plans are sufficiently reviewed to determine whether the plans are in compliance with applicable cost principles, and required limitations are not exceeded.

#### **Strengthen Controls Over Cash Management**

**Federal Awarding Agency:** U.S. Department of Health and Human Services  
**Program Title and CFDA Number:** Low-Income Home Energy Assistance, CFDA 93.568  
**Federal Award Numbers and Year:** 2015G992201; 2015, 2015G992205; 2015,  
2015G992212; 2015, 2014G992201; 2014,  
2014G995623; 2014  
**Compliance Requirement:** Cash Management  
**Type of Finding:** Material Weakness, Noncompliance

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 awards provide for advance payments, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by the recipient with similar procedures established for subrecipients. These regulations include expectations for the department to monitor cash drawdowns by subrecipients to ensure subrecipients conform substantially to the same standards of timing and amounts that apply to the department.

We found the department does not have adequate controls to ensure funds are provided as reimbursement of costs already paid by the subrecipient or that a minimal lapse of time occurred between the advancement to and disbursement of funds by subrecipients. This has been an ongoing finding since fiscal year 2010 due to a lack of adequate resources dedicated by the department to develop and maintain an adequate control process. The department has been in the process of updating its reviews of subrecipient requests for funds but has yet to fully implement changes to ensure compliance with cash management requirements.

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

### **Prior Year Findings**

In the prior fiscal years, we reported noncompliance and internal control findings in the Statewide Single Audit Report related to LIHEAP. For the fiscal-year ended June 30, 2014; see Secretary of State audit report number 2015-05, and for the fiscal year ended June 30, 2013; see Secretary of State audit report number 2014-09.

During fiscal year 2015, the department continued to develop plans for addressing these findings. The last two years of prior findings listed below 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.

Finding Title	Prior Year Finding No.
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
Improve Reviews of Subrecipients	2014-036
Improve Reviews of Subrecipient Allocated Costs	2014-037
Strengthen Controls Over Cash Management	2014-038

The audit findings and recommendations above, along with your responses, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2015. 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,

Margaret Van Vliet, Director  
Oregon Housing and Community Services Department  
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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 the 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 provide a response to us by March 7, 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 Wendy Hewitt, Principal Auditor or Julianne Kennedy, Audit Manager at (503) 986-2255.

Sincerely,

*Office of the Secretary of State, Audits Division*

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