



Secretary of State **Oregon Audits Division**

Fiscal Year 2017

Keeping the State of Oregon Accountable

June 2018
Report 2018-19

Secretary of State Dennis Richardson
Audits Division Director Kip Memmott

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Secretary of State Report Highlights

June 2018

Fiscal Year 2017

Keeping the State of Oregon Accountable

Purpose

The Secretary of State Audits Division audits the State of Oregon's financial statements and the state's compliance with federal program requirements annually. The federal government requires these audits for the approximate \$11 billion in federal financial assistance Oregon receives annually. These audits determine whether amounts reported in Oregon's financial statements are materially correct and adequately supported, evaluate the state's administration of major federal programs for compliance with applicable laws, rules, and regulations, conclude on whether the Schedule of Expenditures of Federal Awards is fairly presented in relation to the state's financial statements, and review accounting and compliance control procedures.

The results of these annual audits are included in the State's Comprehensive Annual Financial Report (CAFR), and in the annual Statewide Single Audit Report. This report summarizes the results of the fiscal year 2017 annual audits. These reports are available on our website.

Results

Audit of the State of Oregon's Financial Statements

- We issued an unmodified opinion on the state's financial statements for fiscal year 2017. An unmodified opinion means the financial statements, as corrected, are "fairly presented in conformance with Generally Accepted Accounting Principles."
- We identified \$731 million in accounting errors and proposed adjustments to correct these errors in the state's financial statements.
- The total amount of accounting errors increased from the prior year by \$41 million.
- We issued nine findings to state agencies with recommendations to improve standard controls used to ensure the accuracy of financial information.

Audits of Compliance with Federal Program Requirements

- We audited 12 federal programs and issued 27 findings related to 10 federal programs administered by seven state agencies.
- We issued "qualified" opinions on three programs, Foster Care, Medicaid, and Workforce Innovation and Opportunity Act (WIOA). A qualified opinion indicates the department's internal controls are inadequate to prevent or detect significant noncompliance in a timely manner.
- A significant number of findings from prior year audits remain unresolved. Of the 12 programs audited for fiscal year 2017, 10 programs had findings that require follow-up procedures or full audits for fiscal year 2018.
- Some programs continue to have similar findings for several years. For example, a federal program administered by the Oregon Housing and Community Services Department has had repeated findings pertaining to its monitoring of subrecipients since 2009.

Keeping the State of Oregon Accountable Overview

The Secretary of State Audits Division audits the State of Oregon's financial statements and the state's compliance with federal program requirements annually. The federal government requires these audits for the approximate \$11 billion in federal financial assistance Oregon receives annually. These audits determine whether amounts reported in Oregon's financial statements are materially correct and adequately supported, evaluate the state's administration of major federal programs for compliance with applicable laws, rules, and regulations, conclude on whether the Schedule of Expenditures of Federal Awards is fairly presented in relation to the state's financial statements, and review accounting and compliance control procedures.

The results of these annual audits are included in the State's Comprehensive Annual Financial Report (CAFR), and in the annual Statewide Single Audit Report. This report summarizes the results of the fiscal year 2017 annual audits. These reports are available on our website.¹

Comprehensive Annual Financial Report

Background

State agency directors and managers are accountable to the citizens of Oregon for how they use public monies. Preparing accurate financial statements to report the use of public funds is an important responsibility for ensuring transparency and providing decision makers and key stakeholders with accurate financial information.

These statements provide a comprehensive view of the state's financial activities during the fiscal year (Statement of Activities) and an overall picture of the state's financial position at the end of the fiscal year (Statement of Net Position). The management of each state agency is responsible for maintaining effective internal controls to ensure financial information is complete and accurate.

Statewide Accounting and Reporting Services (SARS), part of the Department of Administrative Services, prepares the statements by compiling financial information from more than 100 state agencies into the proper format for governmental reporting. SARS provides accounting guidance and training to state agency staff throughout the year.

We audit these financial statements following *Government Auditing Standards* applicable to financial audits, which require that we plan and perform audit work to obtain reasonable assurance about whether the financial statements are materially correct. As part of the annual audit of the state's financial statements, we provide our professional opinion about the completeness, accuracy, and reliability of the state's accounting information. Accurate and reliable accounting data is crucial to tracking how state dollars are spent and provides a starting point for the next budget cycle. A glossary of accounting terms is located at the back of this report.

¹ The Comprehensive Annual Financial Report: <http://sos.oregon.gov/audits/Documents/2017-33.pdf>
The annual Statewide Single Audit: <http://sos.oregon.gov/audits/documents/2018-11.pdf>

Fiscal Year 2017 Financial Audit Results

We issued an unmodified opinion on the state's financial statements for fiscal year 2017. An unmodified opinion means the financial statements, as corrected, are "fairly presented in conformance with Generally Accepted Accounting Principles."

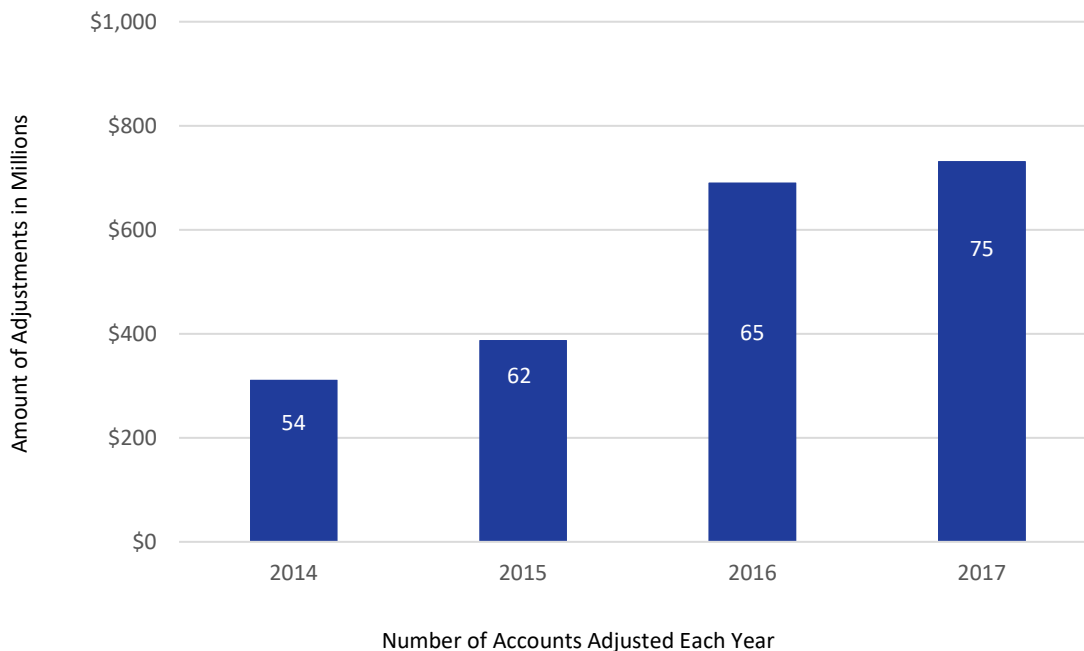
To conduct this audit, our financial auditors performed audit procedures of all major funds of the government and audited hundreds of accounts at 22 state agencies including, but not limited to, the Departments of Human Services, Education, Transportation, Revenue, and the Oregon Health Authority. During the course of our audit, we reviewed \$36.9 billion of state assets, \$16.7 billion of state liabilities, \$25.5 billion of state revenues, and \$25.5 billion of state expenditures.

Our audit of the state's financial statements resulted in nine findings to eight state agencies² with recommendations to improve standard controls commonly used to ensure the accuracy of financial information. We reported the audit results to agency management, the state legislature, federal officials, and the public.

We identified \$731 million in accounting errors and proposed adjustments to 75 accounts to correct these errors. Generally, accounting errors occur when an agency does not record transactions appropriately, resulting in amounts being overstated, understated, reported in the wrong year, or in the wrong place in the financial statements. When errors are large enough to misrepresent the balance of a fund, or impact users' decisions, we propose adjustments to correct the account balance. The underlying causes for adjustments include changes in accounting and auditing standards to turnover of skilled employees.

As shown in Figure 1 the total dollar amount of proposed adjustments and number of accounts adjusted has increased over the last four years. We have audited more accounts the last few years due to a change in auditing standards and a change in the structure of government.³ It is common to identify errors when auditing accounts that have not been recently audited.

Figure 1: Financial audit adjustments, fiscal years 2014 - 2017



² Department of Human Services, Oregon Health Authority, Department of Revenue, Oregon Military Department, Department of Environmental Quality, Oregon Department of Forestry, Oregon Department of Fish and Wildlife, Oregon Liquor Control Commission

³ The University System is no longer part of the state reporting entity, resulting in the audit of other accounts.

History of Comprehensive Annual Financial Report Findings

As shown in Figure 2, our CAFR audit work for fiscal year 2017 included follow-up on 17 findings from prior years, 10 of which were not fully corrected and will require review again next year.

Figure 2: Current year and prior year audit findings

	FY 2014	FY 2015	FY 2016	FY 2017
Current year findings	11	6	16	9
Prior year uncorrected findings	25	17	10	17
Partially corrected in current FY	7	6	2	10
Corrected in current FY	18	11	8	7
Percent corrected	72%	65%	80%	41%

Statewide Single Audit

Background

Oregon annually receives about \$11 billion in federal dollars through grant agreements with federal agencies, such as the Departments of Health and Human Services, Agriculture, Labor, Transportation, and Education. These grants are awarded to state agencies who are required to comply with various federal requirements when administering federal programs. The programs provide for various services, including public health and safety, agricultural research, and homeland security.

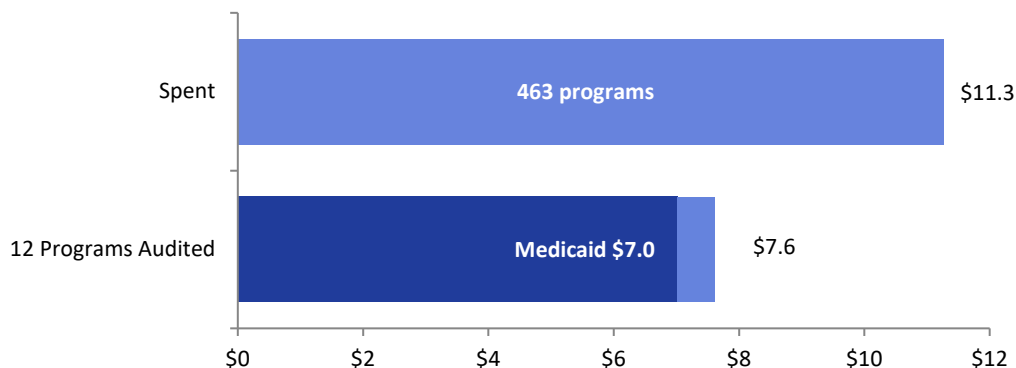
The Audits Division issues the Single Audit Report, which includes a schedule prepared by SARS of all federal funds spent by the state for the year. The report also includes audit findings from the CAFR audit and the federal compliance audits. Agency management provide responses about whether they agree with each finding and what actions they plan to take to correct the underlying issues. In addition, the report presents the status of findings for the prior two years and any action management has taken to correct the findings.

The federal Office of Management and Budget (OMB) develops nationwide policy for performing federal compliance audits. They provide strict instructions for how we are to determine which programs to audit, and the specific audit procedures we need to perform for each federal program to ensure the state is complying with federal requirements when administering the programs. The federal government uses the annual Single Audit Report to monitor how well their programs are administered and to follow up on any findings we identify. Federal granting agencies follow up on our audit findings for purposes of enforcing compliance and determining whether questioned costs need to be repaid or if any sanctions will be imposed. The following highlights key information from the 2017 Statewide Single audit.

Fiscal Year 2017 Federal Expenditures

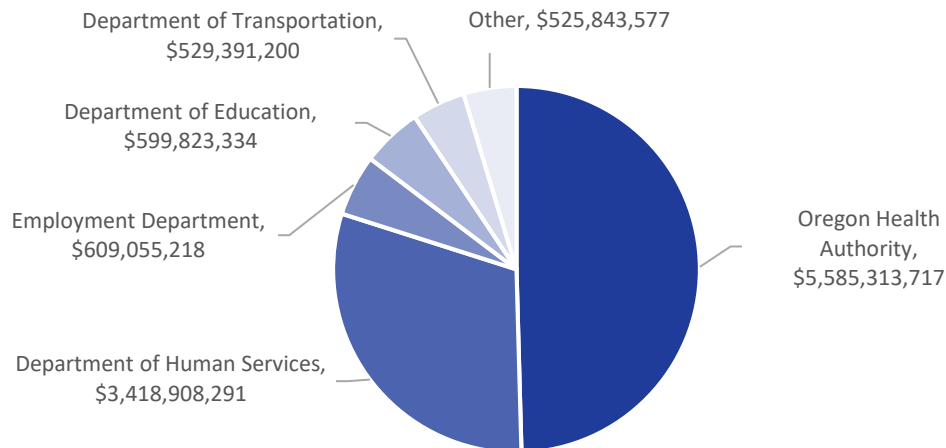
In fiscal year 2017, the State of Oregon spent \$11.3 billion in federal funds for 463 federal programs administered by 42 state agencies. Adhering to OMB requirements designed to select the largest and most risky programs, we audited 12 major federal programs for compliance with federal requirements. As shown in Figure 3, the audited programs accounted for \$7.6 billion or 68% of the \$11.3 billion spent in fiscal year 2017.

Figure 3: Audit coverage of fiscal year 2017 Single Audit (in billions)



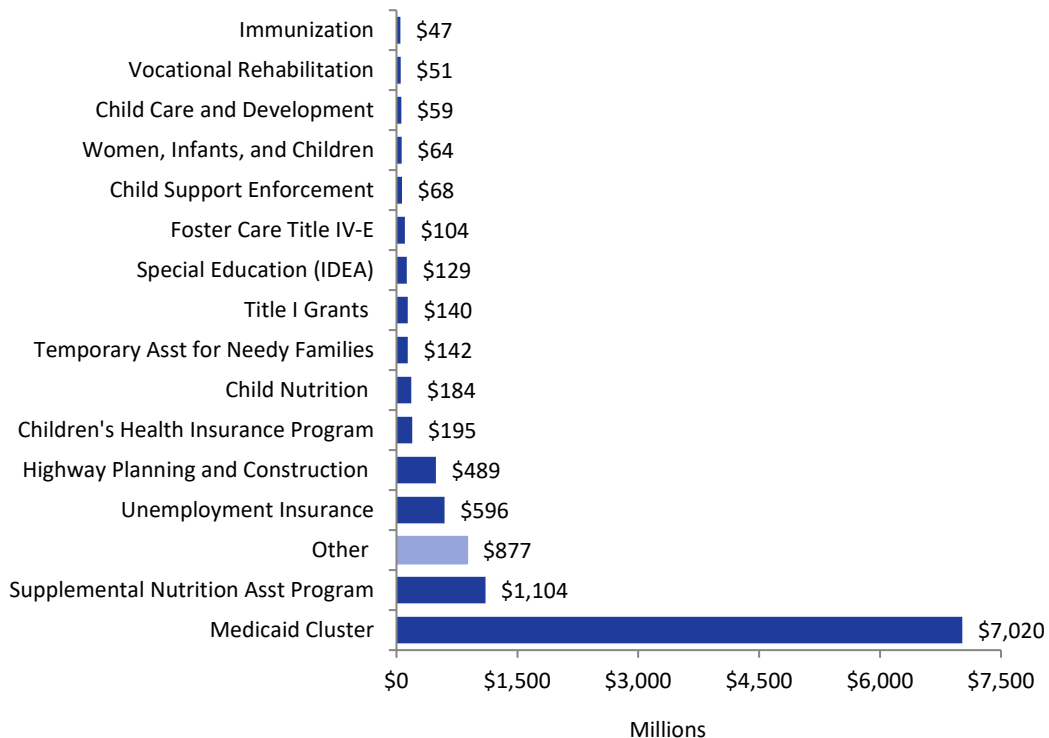
As shown in Figure 4, the Oregon Health Authority and the Department of Human Services accounted for \$9 billion, or 80%, of the state's federal expenditures. Medicaid accounts for \$7 billion and is 93% of the Oregon Health Authority's federal expenditures and 54% of the Department of Human Services' federal expenditures. The Department of Human Services administers other large federal programs, including Supplemental Nutrition Assistance, commonly known as food stamps, Temporary Assistance for Needy Families, and Foster Care.

Figure 4: Federal expenditures by state agency, fiscal year 2017



Of the 463 federal programs administered by the State of Oregon, 15 programs accounted for 92% of the state's total federal expenditures in fiscal year 2017. The Medicaid program is by far the largest public assistance program administered by the state, as depicted in Figure 5.

Figure 5: Summary of federal expenditures by federal program, fiscal year 2017 (in millions)



Medicaid expenditures have been growing in the last five years. Growth is due largely to the expansion of Medicaid eligibility to low-income individuals through the Affordable Care Act (ACA). This expansion contributed to achieving health coverage for 95% of Oregonians in 2015.

Fiscal year 2017 Statewide Single Audit Results

For fiscal year 2017, we questioned whether Oregon's spending of \$727,379 in federal funds was appropriate under federal program rules and issued 27 findings related to 10 federal programs. Figure 6 provides details on programs audited and Figure 7 lists the state agencies with findings and questioned costs. Questioned costs is a term defined by the OMB and required to be used for reporting purposes. When we question costs, we are identifying program costs that may or may not be allowed to be paid for with federal funds. The federal funding agency reviews our findings and determines whether the costs are federally reimbursable.

Figure 6: 2017 Findings by audited federal program

Federal Program	2017 Findings	Federal Program Expenditures
Medicaid Cluster	2	\$7,019,766,704
Children's Health Insurance Program	0	\$194,714,028
Foster Care Title IV-E	3	\$103,773,499
Women, Infants, and Children	0	\$63,947,826
Child Care and Development	1	\$59,001,286
Vocational Rehabilitation	5	\$51,178,318
Low-Income Home Energy Assistance	1	\$36,712,134
WIOA Cluster	3	\$32,035,492
Fish and Wildlife Cluster	5	\$19,801,808
Career and Technical Education – Basic Grants to States	1	\$12,702,058
Twenty-First Century Community Learning Centers	2	\$10,239,900
Migrant Education State Grant Program	3	\$10,147,830
<i>*Multiple Programs – Medicaid and Foster Care</i>	1	
	27	\$7,614,020,883

*The Medicaid and Foster Care programs shared one finding applicable to both programs.

Figure 7: 2017 Findings and questioned costs by state agency

State Agency	Programs Audited	2017 Findings	Questioned Costs ¹
Oregon Health Authority & Department of Human Services	1	3	\$115,843
Department of Human Services	3*	7	\$357,098
Oregon Health Authority	2	0	\$-
Oregon Commission for the Blind	1*	2	\$3,423
Oregon Housing Department	1	1	\$450
Higher Education Coordinating Commission	1	3	\$214,900
Oregon Department of Fish and Wildlife	1	5	\$35,665
Oregon Department of Education	4*	6	\$-
Total		27	\$727,379

*We audited 12 federal programs; two programs at the Department of Human Services were also audited at the Oregon Commission for the Blind and the Department of Education.

¹ Auditors are not always able to determine questioned costs. Questioned costs may exist that we could not quantify due to lack of controls. Questioned costs include those estimated based on sample projection.

Qualified opinions

When the results of an audit determine the agency has sufficient controls to administer the program and the program is generally in compliance with federal requirements, we issue an unmodified opinion. An unmodified, or clean opinion, means there are no “qualifications” (concerns) that would cause us to alter our opinion. However, each year we identify programs where a state agency’s internal controls are inadequate to reasonably prevent or detect material noncompliance in a timely manner. When this is the case, we issue a qualified opinion for the program. Figure 8 displays the history of qualified opinions for the past five years.

For fiscal year 2017, we found the Department of Human Services, the Oregon Health Authority, and the Higher Education Coordinating Commission did not establish adequate internal controls and were not materially compliant with federal requirements for three programs: Foster Care, Medicaid, and Workforce Innovation and Opportunity Act (WIOA). We issued qualified opinions on these three programs.

Figure 8: Federal programs with qualified opinions

Federal Program	2013	2014	2015	2016	2017
Foster Care	Y	Y	Y	Y	Y
CCDF	n/a*	N	Y	Y	N
Medicaid	Y	Y	Y	N	Y
Adoption Assistance	Y	Y	Y	N	n/a
Immunization	N	N	Y	N	n/a
Temp Asst. for Needy Families	Y	N	N	n/a	n/a
Low-Income Home Energy Assistance	Y	N	N	N	N
WIOA Cluster	n/a	N	N	n/a	Y
Qualified Opinions	5	3	5	2	3

*n/a = not audited, audit not required

History of statewide single audit findings

Audit findings include recommendations that address noncompliance with federal requirements and internal control weaknesses related to those requirements. Federal audit rules require us to perform follow-up procedures in the next year to determine whether the agency has resolved the issues. Of the 12 programs audited for fiscal year 2017, 10 programs had findings that require follow-up procedures or full audits next year. Figure 9 illustrates compliance requirements with control weaknesses or noncompliance for the past five years.

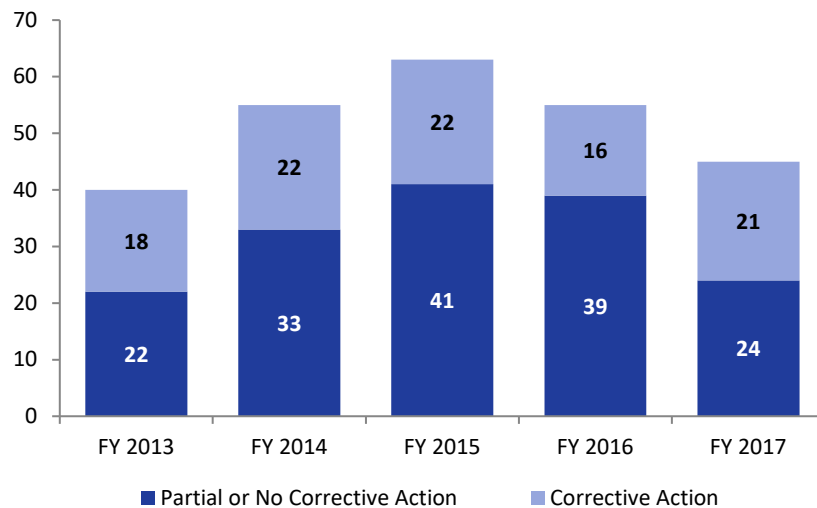
Figure 9: Findings history by type of compliance requirement

	2013	2014	2015	2016	2017	Total
Activities Allowed	3	4	4	2		13
Allowable Costs	5	4	3	9	9	30
Cash Management	2	2	1	1		6
Eligibility	9	5	6	4	2	26
Equipment					1	1
Matching, LOE, MOE	2	3	4	1	2	12
Period of Performance	2	3	2		1	8
Procurement		1		1	2	4
Reporting	9	10	3	2	5	29
Subrecipient Monitoring	2	5	4	3	6	20
Special Tests	8	9	12	3	1	33
	42	46	39	26	29	

Because some findings pertain to multiple compliance requirements, they are counted more than once.

This year, we reported on the status of 45 findings from prior years, because they remained uncorrected at the end of the prior fiscal year. We found that agencies corrected 21 findings, but 24 prior year findings will continue into next year because they remain uncorrected, as depicted in Figure 10.

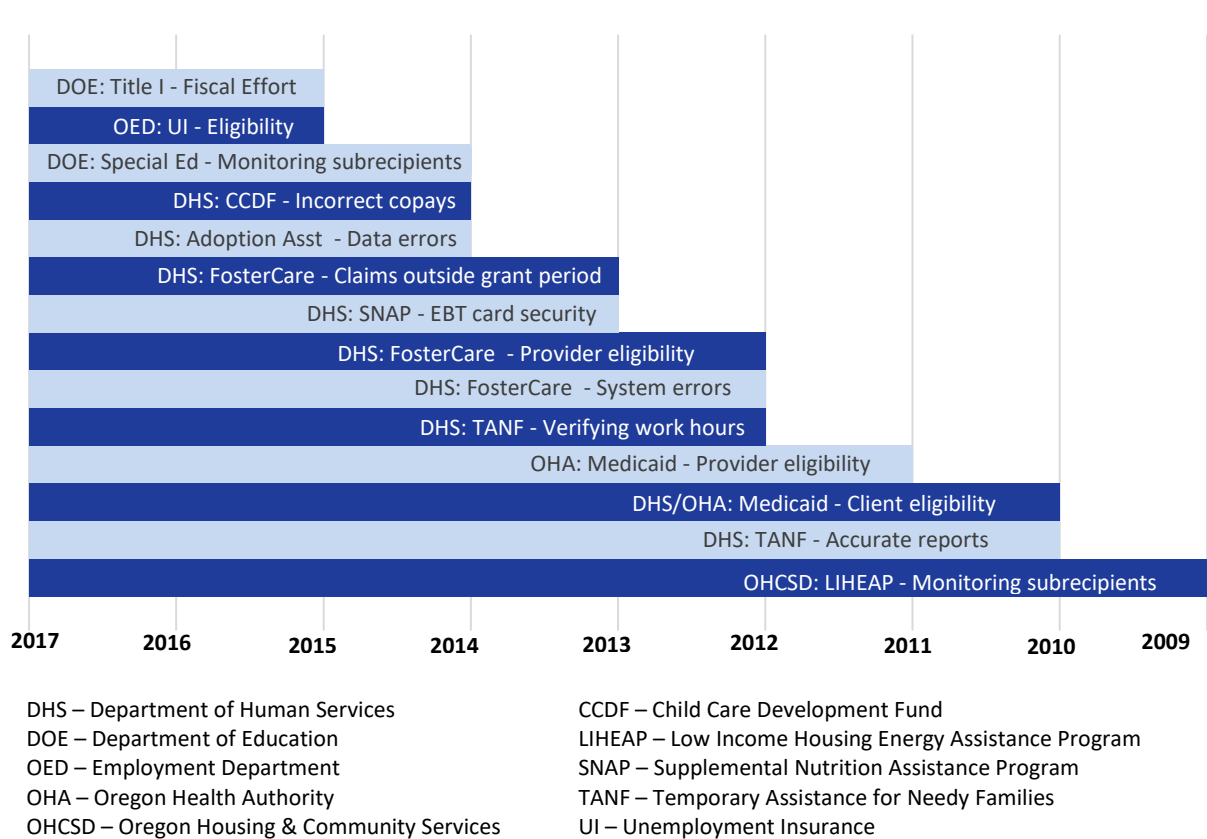
Figure 10: Action taken on prior year uncorrected federal findings



Some findings remain uncorrected from one year to the next because agencies do not correct the underlying issues that cause the noncompliance or control weaknesses. While some findings take time and resources to correct, others may remain simply because management does not make it a priority to address them.

Figure 11 displays a history of findings by agency, program, and requirement that continue to be uncorrected at the end of fiscal year 2017 and have been ongoing for at least three years. When a finding is uncorrected, we are required to continue auditing the requirement until it is resolved.

Figure 11: History of persistent findings



It is the responsibility of the federal granting agency to follow up with state agencies on findings included in the Single Audit Report. After investigating, the federal agency issues a determination letter to the state agency, providing their conclusion about the finding and the planned action the state agency plans to take to resolve the finding. Generally, the determination letters uphold our findings, reinforce our recommendations, and request corrective action from the state agency. Sometimes the federal agency imposes a sanction upon the state or adjusts future funding to correct the issue. Occasionally, the federal agency will clarify a requirement in favor of the state agency and the finding is no longer valid. Only federal agencies have the authority to enforce their grant requirements.

Glossary of Terms

Asset: A resource with economic value that the government owns or controls with the expectation it will provide future benefit. (*Examples: computer, cell phone, building*)

CAFR (Comprehensive Annual Financial Report): The official annual report that includes financial statements designed to report the financial position and results of operations of the state.

Determination Letter: Letter written by the federal awarding agency in response to the single audit findings. This letter provides their conclusions about the findings and the actions the state agency plans to take to resolve the findings.

Expenditure: Designates the cost of goods delivered or services rendered, whether paid or unpaid. (*Examples: salaries, monthly cell phone charges billed and paid in subsequent month*)

Error: A mistake in an accounting entry that was not intentional. (*Examples: duplicated entry, entry debited instead of credited, wrong amount posted to an account, accounts payable account not credited when goods purchased on credit*)

Generally Accepted Accounting Principles (GAAP): A combination of authoritative standards and the commonly accepted ways of recording and reporting accounting information.

Government Auditing Standards (GAS): The professional standards and guidance issued by the Comptroller General of the United States that provide the framework for conducting high quality audits of governmental entities.

Internal Controls: Methods put in place by management to ensure the integrity of financial and accounting information, and compliance with federal grant requirements.

Liability: Legal debts or obligations that arise during the course of business operations.

Qualified Opinion: The type of audit opinion given when audit procedures identify internal controls are inadequate to prevent or detect significant noncompliance or material misstatements of financial information.

Questioned Cost: A cost that is questioned by the auditor for violation of federal award provisions, or lack of supporting documentation, or because the cost appears unreasonable.

Revenue: Income received or earned during a specific period.

Statement of Activities: Required basic financial statement that shows the financial results of the year's activities. The statement of activities presents revenues less expenditures to show net position.

Statement of Net Position: Required basic financial statement that shows the balance of the assets, liabilities, deferrals, and net position at June 30.

Subrecipient: An entity that receives federal funds from the state to carry out a federal program.

Unmodified Opinion: The type of audit opinion given when financial statements, as corrected, are fairly presented in conformance with GAAP.



Audit Team

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About the Secretary of State Audits Division

The Oregon Constitution provides that the Secretary of State shall be, by virtue of his office, Auditor of Public Accounts. The Audits Division performs this duty. The division reports to the elected Secretary of State and is independent of other agencies within the Executive, Legislative, and Judicial branches of Oregon government. The division has constitutional authority to audit all state officers, agencies, boards and commissions as well as administer municipal audit law.

This report is intended to promote the best possible management of public resources.
Copies may be obtained from:

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sos.oregon.gov/audits