



# Secretary of State **Oregon Audits Division**

## Fiscal Year 2018 **Keeping Oregon Accountable**

May 2019  
**Report 2019-21**

Secretary of State Bev Clarno  
Audits Division Director Kip Memmott

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# Secretary of State Report Highlights

May 2019

Fiscal Year 2018

## Keeping Oregon Accountable

### Purpose

The Secretary of State Audits Division annually audits the State of Oregon's financial statements and compliance with federal program requirements. The federal government requires these audits for the approximately \$11 billion in financial assistance Oregon receives each year. 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 audits are included in the State's Comprehensive Annual Financial Report (CAFR), and in the annual Statewide Single Audit Report, both of which are available on the Secretary of State website. This report summarizes the results of the annual audits for fiscal year 2018.

### Results

#### *Audit of the State of Oregon's Financial Statements*

- We identified \$809 million in accounting errors and proposed adjustments to correct them in the state's financial statements. Corrections fluctuate from year to year; this year's audit adjustments were \$77 million more than last year.
- We issued an unmodified opinion on the state's financial statements for fiscal year 2018. An unmodified opinion means the financial statements, as corrected, are fairly presented in conformance with Generally Accepted Accounting Principles.
- We issued three findings for material weaknesses in internal control, indicating a reasonable possibility that a material misstatement of the entity's financial statements would not be prevented or detected and corrected on a timely basis.
- We issued four significant deficiencies in internal control with recommendations to improve standard controls used to ensure the accuracy of financial information. A significant deficiency is less severe than a material weakness, but requires corrective action.

#### *Audits of Compliance with Federal Program Requirements*

- We audited 14 federal programs at eight agencies and issued 29 findings.
- We questioned whether \$3,220,099 in expenditures were appropriately paid with federal funds.
- We issued a qualified opinion on one program: Temporary Assistance for Needy Families (TANF). A qualified opinion indicates the department's internal controls are inadequate to prevent or detect significant noncompliance in a timely manner.
- We followed up on the corrective status of 37 findings from the prior two years, requiring audit work at seven agencies.

## Overview

The Secretary of State Audits Division annually audits the State of Oregon's financial statements and compliance with certain federal program requirements. The federal government requires these audits for the approximately \$11 billion in financial assistance Oregon receives each year. These audits determine whether amounts reported in Oregon's financial statements are materially correct and adequately supported, and evaluate the state's administration of major federal programs for compliance with applicable laws, rules, and regulations. The results of these 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 these annual audits for fiscal year 2018. These reports are available on the Secretary of State website.<sup>1</sup> A glossary of accounting terms is located at the end of this report.

## 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.

### Fiscal Year 2018 Results

We issued an unmodified opinion on the state's financial statements for fiscal year 2018. 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 23 state agencies including, but not limited

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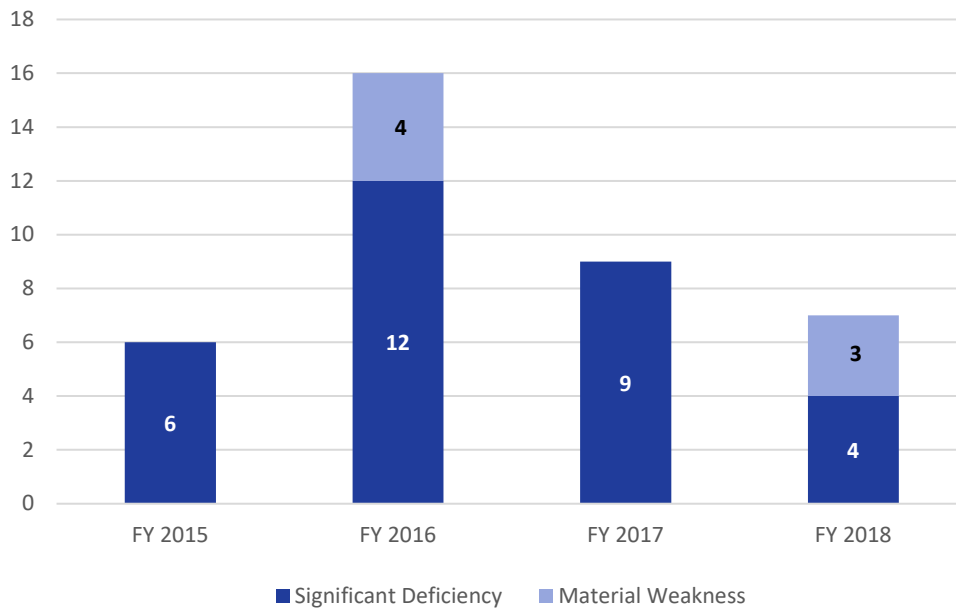
<sup>1</sup> The Comprehensive Annual Financial Report: <https://sos.oregon.gov/audits/Documents/2018-46.pdf>  
The annual Statewide Single Audit: <https://sos.oregon.gov/audits/documents/2019-14.pdf>

to, the Departments of Human Services, Education, Transportation, Revenue, and the Oregon Health Authority. During the course of our audit, we reviewed \$39 billion of state assets, \$16.8 billion of state liabilities, \$26.9 billion of revenues, and \$24.8 billion of expenditures.<sup>2</sup>

Our audit of the state’s financial statements resulted in seven findings to four state agencies<sup>3</sup> 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.

Figure 1 shows three of these findings rose to the level of material weakness, which means there is a reasonable possibility that a material misstatement will not be prevented or detected and corrected on a timely basis.

**Figure 1: Financial findings by type**



FY18 material weaknesses at Department of Human Services, Oregon Health Authority, and Oregon Business Development Department

We proposed audit adjustments to correct accounting errors in the state’s financial statements. Generally, accounting errors occur when an agency does not record a transaction; records a transaction using incorrect account coding, often resulting in the overstatement or understatement of accounts; or reports amounts in the wrong year or the wrong place in the financial statements. Adjustments may also be necessary when an accounting standard is misinterpreted or misapplied. When errors are large enough to misrepresent the balance of a fund, or influence the decisions of users of the financial statements, we propose adjustments to correct the account balance.

Figure 2 displays the proposed audit adjustments for fiscal year 2018, by agency. The \$1.2 billion audit adjustment to the Higher Education Coordinating Commission was due to a change in understanding how to present fund balance in the financial statements and is not due to an error in coding transactions.

The remaining \$809 million in adjustments pertained to errors, of which \$736 million pertained to the Department of Human Services and Oregon Health Authority. Most of the errors

<sup>2</sup> These revenues and expenditures included both state and federal dollars.

<sup>3</sup> The four agencies with findings were the Department of Human Services, Oregon Health Authority, Department of Administrative Services, and Oregon Business Development Department.

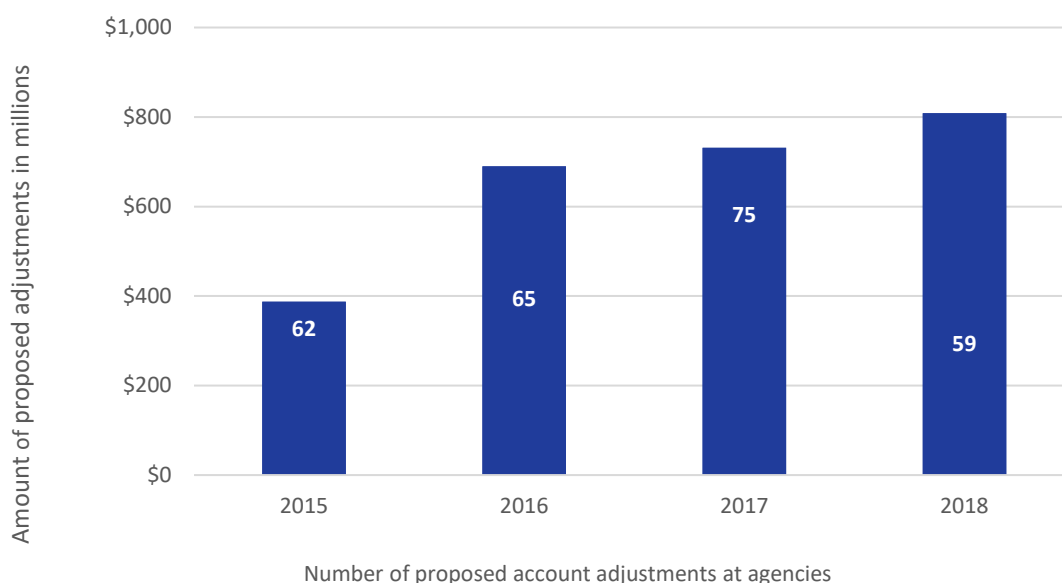
comprising the \$736 million occurred when the central accounting staff prepared year-end closing transactions, requiring estimates. When estimates are off, generally the result is transactions are reported in the wrong year.

**Figure 2: Proposed financial audit adjustments by agency**

Proposed audit adjustments	Number	Amount
Higher Education Coordinating Commission	12	\$1,200,728,024
Department of Human Services / Oregon Health Authority	26	\$736,090,954
Department of Transportation	8	\$24,753,595
Department of State Police	3	\$22,513,759
Judicial Department	4	\$9,745,494
Oregon Business Development Department	5	\$5,423,803
Public Defense Services Commission	3	\$3,095,074
Department of Justice	4	\$2,594,097
Housing and Community Services Department	2	\$1,983,300
Oregon Military Department	2	\$1,311,998
Department of Corrections	2	\$1,265,346
<b>Total</b>	<b>71</b>	<b>\$2,009,505,444</b>

As shown in Figure 3, we proposed 59 adjustments totaling \$809 million to correct errors in the financial statements; fewer adjustments compared to the past three years, although the dollar amount of the corrections increased.

**Figure 3: Proposed financial audit adjustments to correct errors, fiscal years 2015 – 2018**



## History of CAFR findings

When considering the extent of financial findings, it is important to know that uncorrected prior year findings also need to be addressed for the agency to have strong internal controls. In Figure 4, we show 20 active financial findings at the end of 2018 — seven new findings and 13 prior year findings that have not been completely corrected. Five financial findings from prior years were corrected in 2018.

**Figure 4: Current year and prior year audit findings**

	FY 2015	FY 2016	FY 2017	FY2018
New findings	6	16	9	7
Prior year findings	17	10	17	18
Corrected this year	11	8	7	5
Unresolved findings	6	2	10	13

# Statewide Single Audit

## Background

Oregon annually receives approximately \$11 billion in federal dollars through grant agreements with federal agencies. These grants are awarded to state agencies for programs that provide various services including public health and safety, agricultural research, and homeland security. Agencies receiving the funds are required to comply with various federal requirements for the administration of the programs.

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 provides 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 from 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 determining 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.

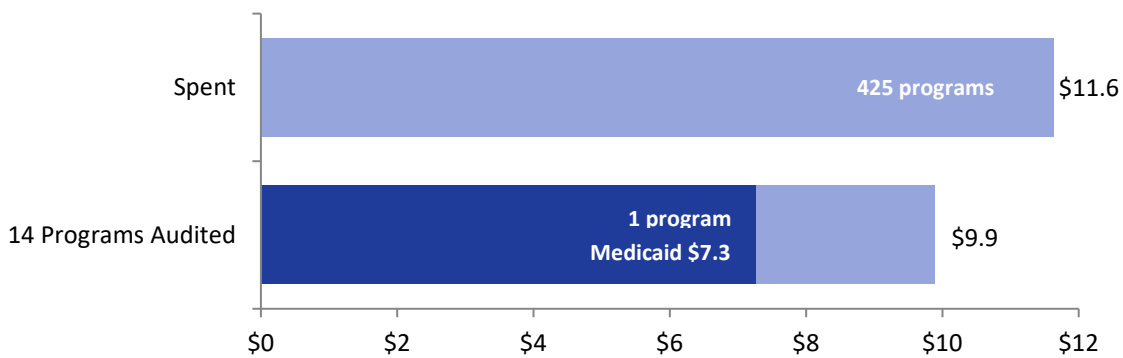
The following highlights key information from the 2018 Statewide Single Audit.

## Fiscal Year 2018 Federal Expenditures

In fiscal year 2018, the State of Oregon spent \$11.6 billion in federal funds for 425 federal programs administered by 41 state agencies. Adhering to OMB requirements designed to select programs based on expenditures and risk, we audited 14 major federal programs for compliance with federal requirements.

As shown in Figure 5, the audited programs accounted for \$9.9 billion, or 85%, of the \$11.6 billion spent in fiscal year 2018. Medicaid is the single largest program for the state and accounts for \$7.3 billion in federal funds spent by the state.

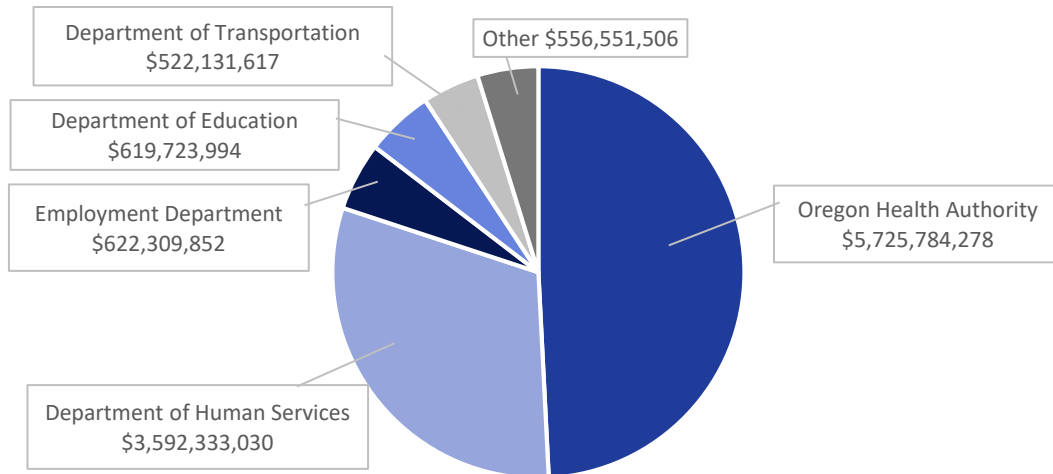
Figure 5: Audit coverage of fiscal year 2018 single audit (in billions)





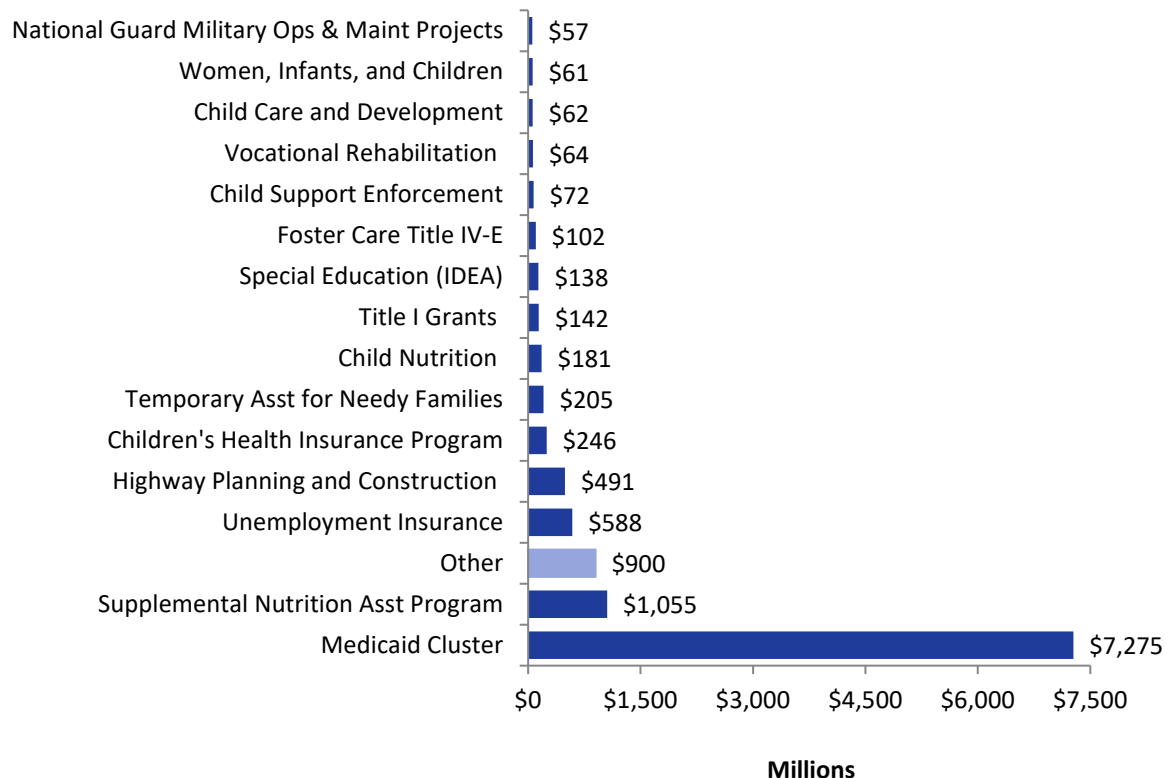
As shown in Figure 6, the Oregon Health Authority and the Department of Human Services accounted for \$9.3 billion, or 80%, of the state’s federal expenditures. The Medicaid program accounts for 92% of the Oregon Health Authority’s federal expenditures and 55% of the Department of Human Services’ federal 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 (TANF), and Foster Care.

**Figure 6: Federal expenditures by state agency, fiscal year 2018**



Of the 425 federal programs administered by the State of Oregon in fiscal year 2018, 15 programs account for 92% of the state’s total federal expenditures. The Medicaid program is by far the largest public assistance program administered by the state, as depicted in Figure 7.

**Figure 7: Summary of federal expenditures by federal program, fiscal year 2018 (in millions)**

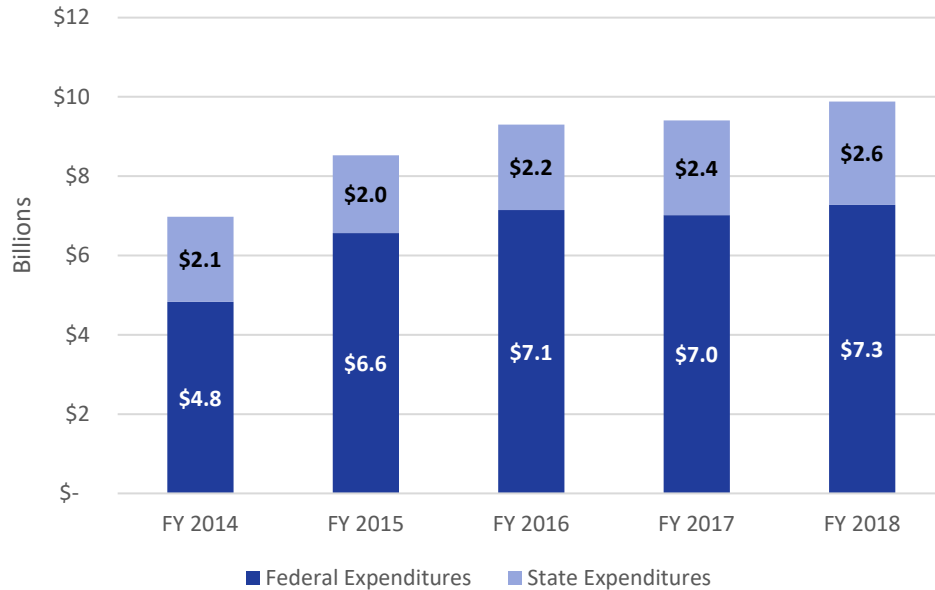


Medicaid growth through 2015 was due largely to the expansion of Medicaid eligibility to low-income individuals through the Affordable Care Act (ACA). This expansion contributed to achieving health coverage for 95% of all Oregonians.

The federal government paid 100% of state expenditures for newly ACA-eligible Medicaid enrollees through calendar year 2016. The federal matching rate for newly ACA-eligible enrollees drops gradually to 90% in calendar year 2020, where it will remain.

Figure 8 shows the steady rise in both the federal- and state-funded Medicaid expenditures.

**Figure 8: Federal and state Medicaid expenditures over time**



## Fiscal year 2018 Statewide Single Audit Results

For fiscal year 2018, we questioned whether Oregon’s spending of \$3,220,099 in federal funds was appropriate under federal program rules and we issued 29 findings in our audit of 14 federal programs at eight state agencies. “Questioned costs” is a term the OMB requires us to use when reporting findings. 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 9 lists the programs we audited in 2018, and shows the questioned costs we identified. Questioned costs are not always a good measure of an agency’s compliance. Often an internal control weakness is identified, but costs are not linked directly to that control, so they are unable to be estimated. Last year, we identified \$447,000 in known questioned costs and \$727,000 in projected errors. This year, we identified \$3.2 million — \$2.2 million in directly identifiable costs and another \$1 million in projected errors based on our sample testing.

Of the \$3.2 million, \$1.3 million are questioned because the Higher Education Coordinating Commission did not submit a required cost allocation plan to the U.S. Department of Labor for approval. The Commission is working to complete this important administrative task for fiscal year 2019. Foster Care testing resulted in \$1.1 million in questioned costs primarily due to insufficient documentation supporting the eligibility of recipients, and system processing errors that caused federal reimbursements to be inappropriately collected.

**Figure 9: 2018 Findings and questioned costs by program and state agency**

State Agency	2018 Findings	Federal Program Expenditures	Questioned Costs***
<b>Department of Human Services</b>	<b>10</b>		<b>\$ 1,445,710</b>
Supplemental Nutrition Assistance Program (SNAP)	1	\$ 1,054,516,064	
Temporary Assistance for Needy Families (TANF)	5	205,407,882	332,970
Foster Care Title IV-E	4*	101,768,205	1,112,740
<b>Oregon Health Authority and/or Department of Human Services</b>	<b>7</b>		<b>239,725</b>
Medicaid Cluster	5*	7,275,274,657	68,631
Medicaid/SNAP/TANF/Foster Care	2	**	171,094
<b>Oregon Employment Department</b>	<b>0</b>		
Unemployment Insurance	0	587,538,161	
Employment Service Cluster	0	20,306,124	
<b>Housing and Community Services Department</b>	<b>0</b>		
Low-Income Home Energy Assistance	0	36,437,533	
<b>Higher Education Coordinating Commission</b>	<b>2</b>		
WIOA Cluster	2	33,228,906	1,392,948
<b>Department of Justice</b>	<b>2</b>		
Child Support Enforcement	2	72,055,645	25,689
<b>Oregon Department of Education</b>	<b>7</b>		
Child Nutrition Cluster	2	181,249,915	
Title I Grants	2	142,461,874	
Special Education Cluster (IDEA)	3	137,984,810	
Child and Adult Care Food Program (CACFP)	0	36,269,158	
<b>Oregon Department of Environmental Quality</b>	<b>2</b>		
Performance Partnership Grants	2	10,387,156	116,027
<b>Total</b>	<b>29</b>	<b>\$ 9,894,886,089</b>	<b>\$ 3,220,099</b>

\* One finding pertained to two programs at Department of Human Services

\*\* Program expenditures per audited agency(ies) already listed

\*\*\*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 10 displays the history of qualified opinions for the past five years.

For fiscal year 2018, we found the Department of Human Services did not establish adequate internal controls and was not materially compliant with federal requirements for the TANF program. We issued a qualified opinion on this program.

Last year, we qualified the Foster Care, Medicaid, and Workforce Investment and Opportunity Act programs. When we followed up on findings for these programs in fiscal year 2018, we found the agencies made sufficient progress to correct the findings, so we removed the qualifications and reported a clean opinion.

**Figure 10: Federal programs with qualified opinions**

Federal Program	2014	2015	2016	2017	2018
Foster Care	X	X	X	X	
Child Care and Development Fund		X	X		
Medicaid	X	X		X	
Adoption Assistance	X	X			
Immunization		X			
Temporary Assistance for Needy Families					X
WIOA Cluster				X	
<b>Qualified Opinions</b>	<b>3</b>	<b>5</b>	<b>2</b>	<b>3</b>	<b>1</b>

Blank spaces indicate the program was either not required to be audited or received an unmodified opinion.

## History of Statewide Single Audit findings

The OMB categorizes compliance requirements into 12 categories. Not all requirements apply to every program, and some requirements are more complex than others. Over the past five years, we have reported findings in all but one category. Figure 11 illustrates compliance requirements with findings for the past five years. Totals by category indicate which requirements are most problematic for Oregon.

**Figure 11: Findings history by type of compliance requirement**

Compliance Requirement	2014	2015	2016	2017	2018	Total
Activities Allowed	4	4	2		2	12
Allowable Costs	4	3	9	9	11	36
Cash Management	2	1	1			4
Eligibility	5	6	4	2	6	23
Equipment				1		1
Matching, LOE, MOE	3	4	1	2	5	15
Period of Performance	3	2		1		6
Procurement	1		1	2		4
Program Income						0
Reporting	10	3	2	5	3	23
Subrecipient Monitoring	5	4	3	6	5	23
Special Tests	9	12	3	1	3	28
	<b>46</b>	<b>39</b>	<b>26</b>	<b>29</b>	<b>35</b>	

Some findings pertain to multiple compliance requirements and are counted more than once.

The OMB requires auditors to perform follow-up procedures in the following year to determine whether an agency has taken appropriate corrective action steps to resolve the findings. We reported on the status of 37 federal compliance findings from the prior two years, and found

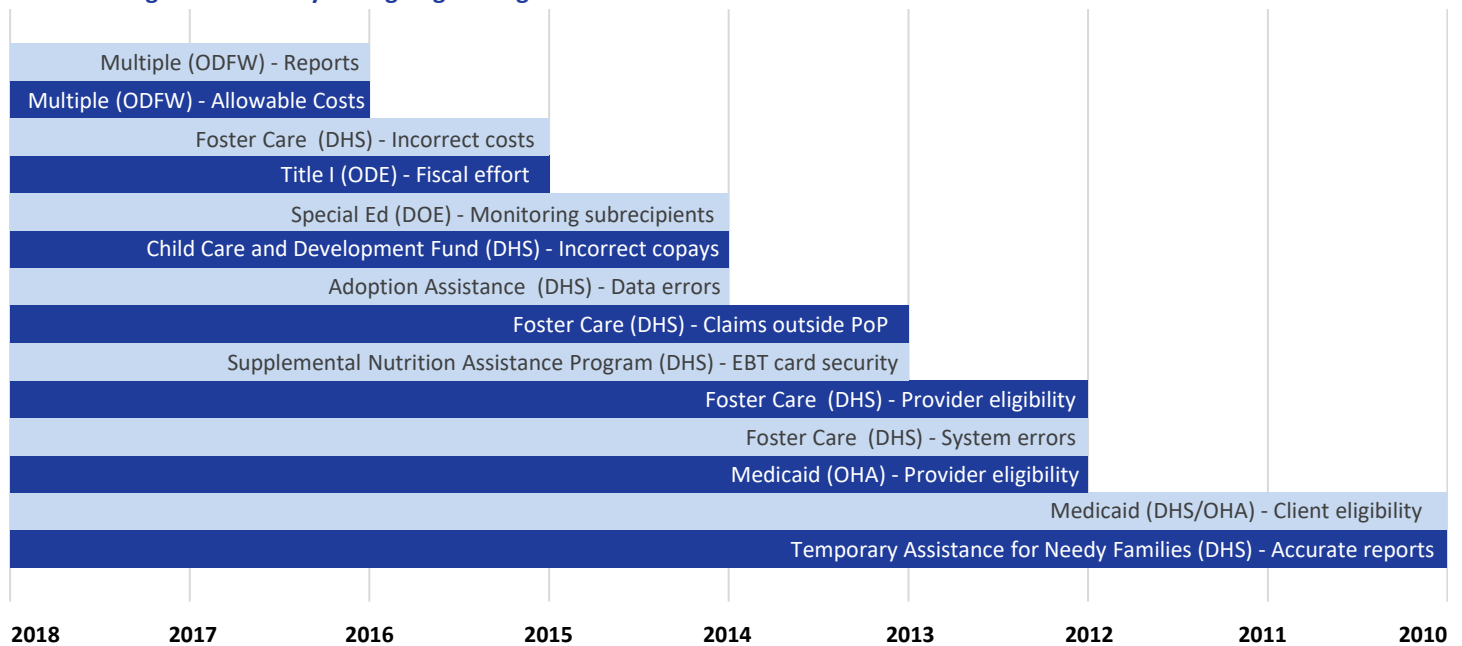
that agencies had corrected 13 of them; however, 24 prior year findings will continue into fiscal year 2019 because they remain uncorrected. In addition, 10 of the 14 programs audited for fiscal year 2018 have findings that will require follow-up or full audits in 2019.

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 12 displays a history of ongoing findings by program, agency, and nature of the finding that continue to be uncorrected at the end of fiscal year 2018. The figure shows those findings that 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.

The TANF program shares the longest continuously unresolved audit finding with Medicaid. Originating in fiscal year 2010, TANF data reports that are required to be submitted to the federal agency do not accurately reflect case status and activity of the reporting period. Medicaid’s client eligibility findings include eligibility that was not re-verified, ineligible individuals receiving payments, and missing applications.

**Figure 12: History of ongoing findings**



DHS – Department of Human Services  
 OHA – Oregon Health Authority  
 ODFW – Oregon Department of Fish & Wildlife  
 Multiple – Pacific Coast Salmon Recovery Fund/Pacific Salmon Treaty Program; Fish and Wildlife Cluster

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 corrective action the state agency plans to take to resolve the finding. Generally, the determination letters uphold our findings, reinforce our recommendations, and request 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.

**CAFR (Comprehensive Annual Financial Report):** The government entity's official annual report that includes financial statements designed to report the financial position and results of operations of the primary government (including its blended component units) and provide an overview of the discretely presented component units.

**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.

**Error:** A mistake in an accounting entry that was not intentional.

**Fund Balance:** In governmental accounting, "funds" are used to separately account for specific activities within the government and present them in the financial statements. For example, the Educational Support Fund shows the activities of the Higher Education Coordinating Commission (HECC) and the Department of Education. Fund balance is the arithmetic difference between total fund assets and total fund liabilities.

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

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

**Internal Controls:** Methods put in place by management to ensure the integrity of financial and accounting information.

**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 a department or program's internal controls are inadequate to prevent or detect significant noncompliance or financial material misstatements.

**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 the 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 the 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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