



Fiscal Year 2021 Keeping Oregon Accountable

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Report 2022-27



Secretary of State
Shemia Fagan



Audits Director
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Report Highlights

Fiscal Year 2021
Keeping Oregon Accountable

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 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 audits are included in the [State's Annual Financial Report](#), and in the annual [Statewide Single Audit Report](#). This report summarizes the results of the fiscal year 2021 audits.

Audit of the State of Oregon's Financial Statements

- We identified \$1.8 billion in accounting errors (unintentional mistakes) and proposed adjustments to correct them in the financial statements.
- We issued an unmodified opinion (clean) on the state's financial statements for fiscal year 2021.
- We issued eight 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, yet requires corrective action.

Audits of Compliance with Federal Program Requirements

- We audited 18 federal programs at 11 agencies and issued 29 findings and recommendations.
- We questioned whether \$10,031,362 in expenditures were appropriately paid with federal funds.
- We issued qualified opinions on the Temporary Assistance for Needy Families (TANF) program and Low-Income Home Energy Assistance Program (LIHEAP), indicating the departments' internal controls are inadequate to prevent or detect significant noncompliance in a timely manner.
- We followed up on 47 findings from the prior three years to see if corrective action had been taken at eight agencies.
- Federal expenditures exceeded \$20 billion, 30% of which included COVID-related funding.

Overview of Annual Financial and Federal Audits

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 financial assistance Oregon receives annually, which ranged between \$11 to \$12 billion in fiscal years 2015-19. In fiscal year 2020, that assistance increased to \$17 billion, due largely to a substantial increase in federal funding for Unemployment Insurance in response to the global pandemic. Fiscal year 2021 assistance was \$22 billion, again attributed to Unemployment Insurance increases and other pandemic-related funding, including the Coronavirus Relief Fund and Education Stabilization Fund.

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.

This report summarizes the results of the fiscal year 2021 annual audits. The State's Annual Financial Report and annual Statewide Single Audit Report are on the Secretary of State website.¹ Detailed financial and federal findings, auditor recommendations, and agency planned corrective actions are included in the Statewide Single Audit Report. A glossary of accounting terms is located at the end of this report.

Annual Financial Report

State agency directors and managers are accountable to Oregonians for how they use public monies. To help ensure accurate financial reporting, state agencies are to comply with Generally Accepted Accounting Principles. The management of each state agency is responsible for implementing and maintaining effective internal controls to ensure the integrity of financial and accounting information.

Preparing accurate financial statements is essential for ensuring reliable and transparent financial information is provided to decision makers and key stakeholders. 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).

Statewide Accounting and Reporting Services, 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. They also provide 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 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

¹ The Annual Financial [Report 2022-03](#); and the annual Statewide Single Audit [Report 2022-18](#).

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.

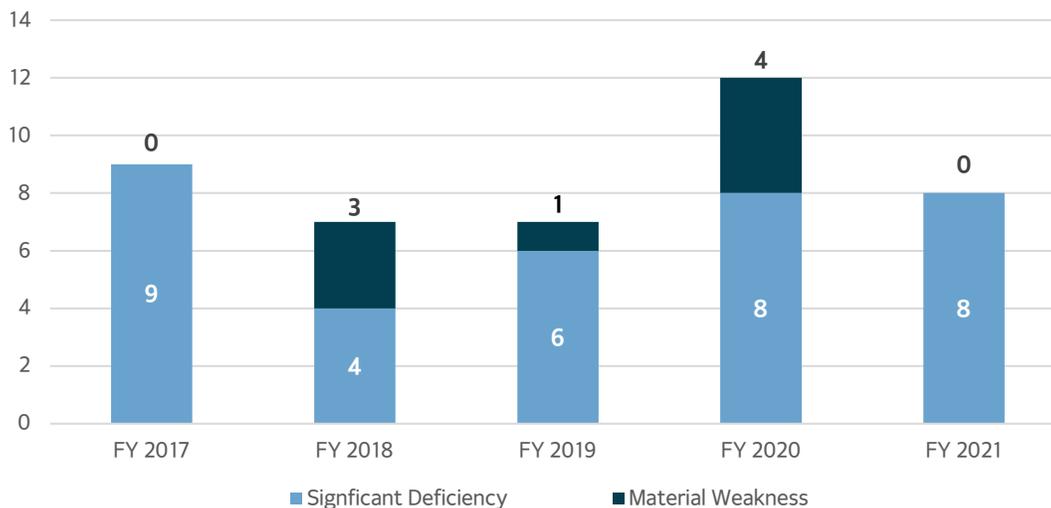
Fiscal Year 2021 Results

We issued an unmodified opinion on the state’s financial statements for fiscal year 2021. 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 the Departments of Human Services, Education, Transportation, Revenue, and the Oregon Health Authority. During the course of our audit, we reviewed assets of \$50 billion, liabilities of \$21 billion, revenues of \$41 billion, and expenditures of \$42 billion. We reported the results of our audit to agency management, the state Legislature, federal officials, and the public.

Our audit of the state’s financial records identified eight findings involving seven state agencies. To mitigate risks from these findings, we recommended agencies improve standard controls commonly used to ensure the accuracy of financial information. The type of control finding we report depends on the degree of control weakness and generally falls into one of two categories, as shown in Figure 1: a significant deficiency or material weakness. A material weakness is more severe and more likely to have an impact on the financial statements. We did not report any material weaknesses in 2021.

Figure 1: Material weaknesses identified vary from year-to-year



We proposed audit adjustments to correct accounting errors in the state’s financial statements. Accounting errors occur when an agency does not record a transaction, or records a transaction using incorrect account coding, resulting in amounts appearing 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, we propose adjustments to correct the account balance. Figure 2 shows the dollar amount of adjustments significantly decreased while the number of adjustments remained steady. The majority of last year’s monetary adjustments were due to implementation of a new accounting standard.

Figure 2: Dollar amount of adjustments decreased in fiscal year 2021

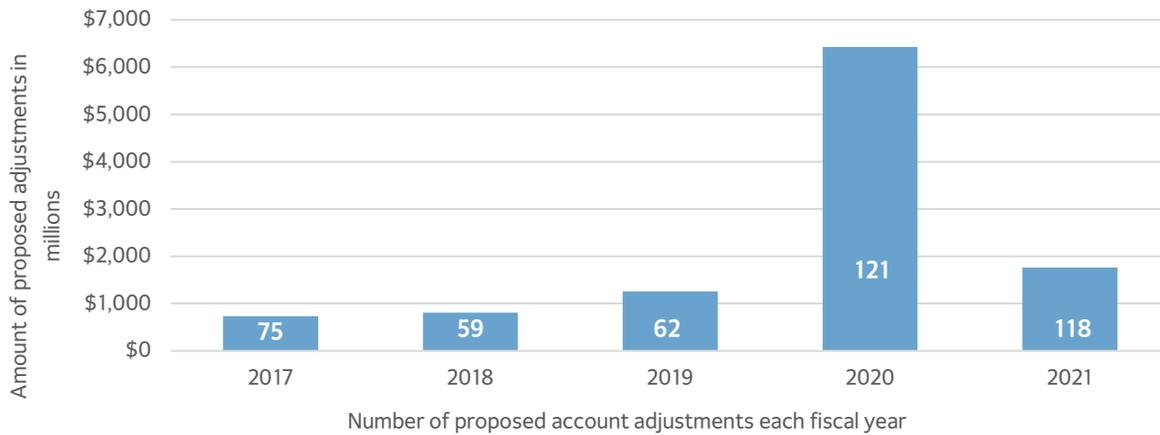


Figure 3 lists the agencies where we proposed audit adjustments for fiscal year 2021. Audit adjustments were the result of control deficiencies related to year end accounting entries, where accruals did not reasonably estimate actuals, contained arithmetic errors, or were not made. Additionally, deficiencies were related to incorrect accounts payable balances, revenue recognition, and bond valuations. Most proposed adjustments moved reported amounts from one financial account to another to properly report account balances in the correct classification in the financial statements. The audit adjustments we proposed align Oregon’s financial statements with accounting standards and demonstrate the importance of the annual financial audit.

Figure 3: Proposed financial audit adjustments totaled \$1.8 billion for fiscal year 2021

State agency	Accounts affected	Amount
Department of Human Services / Oregon Health Authority	30	\$ 692,027,907
Department of Revenue	8	347,449,584
Department of Consumer and Business Services	18	322,338,915
Department of Transportation	12	131,284,516
Department of Forestry	16	99,324,839
Employment Department	9	96,013,031
Multiple Agencies*	18	65,920,058
Department of Administrative Services	5	10,524,795
Housing and Community Services Department	2	980,723
Total	118	\$1,765,864,367

Note: In fiscal year 2021, adjustments were proposed to identify and track activity related to smaller agencies that are part of the reporting entity, but optionally excluded from the financial statements.

History of Annual Financial Report findings

When considering the extent of financial findings, it is important to know uncorrected prior year findings also need to be addressed to have strong internal controls. As shown in Figure 4, 10 financial findings from prior years were corrected in 2021. While seven prior year findings remain outstanding, the agencies have made progress toward addressing the recommendations.

Figure 4: Agencies improve correction of findings

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Total prior year findings reviewed	18	19	20	16	17
Prior year findings, not resolved	11	14	13	7	7
Prior year findings, corrected	7	5	7	9	10
Rate of corrections	39%	26%	35%	56%	59%

Statewide Single Audit

Oregon annually receives federal dollars through grant agreements with federal agencies, which totaled \$22 billion in fiscal year 2021. 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. Oregon continued to receive substantially more in federal dollars in fiscal year 2021 to assist with the response to the global pandemic. Unemployment Insurance, Medicaid, and the Coronavirus Relief Fund each expended between \$700 million and \$1 billion more than the prior year. A new program, Presidential Declared Disaster Assistance to Individuals and Households - Other Needs, expended \$405 million in funds associated with unemployment insurance benefit payments.

The Audits Division issues the Single Audit Report, which includes a schedule prepared by the Department of Administrative Services of all federal funds spent by the state for the year. The report also includes audit findings from the annual financial 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 agency management has taken to correct the findings.

The federal Office of Management and Budget (OMB) develops nationwide policy for performing federal compliance audits. OMB provides rigid 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.

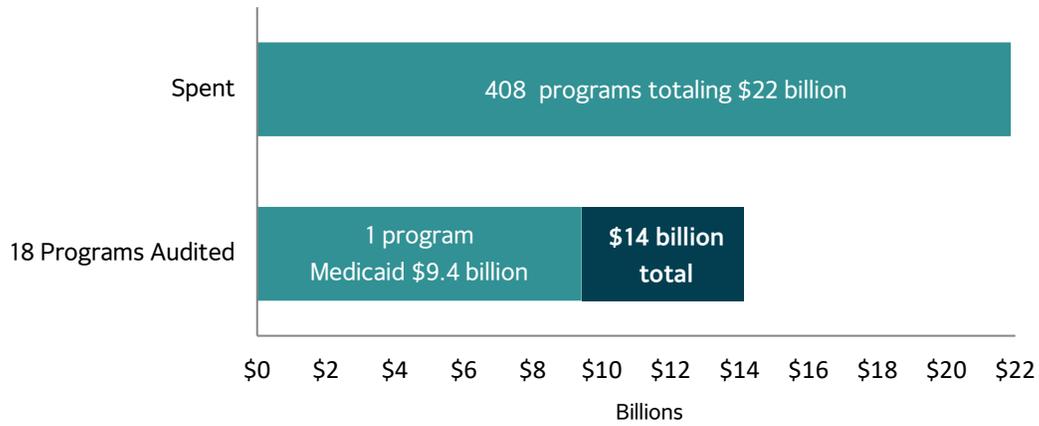
The following highlights key information from the 2021 Statewide Single audit.

Fiscal Year 2021 Federal Expenditures

In fiscal year 2021, the State of Oregon spent \$22 billion in federal funds for 408 federal programs administered by 54 state agencies. Adhering to OMB requirements designed to select programs based on expenditures and risk, we audited 18 major federal programs for compliance with federal requirements.

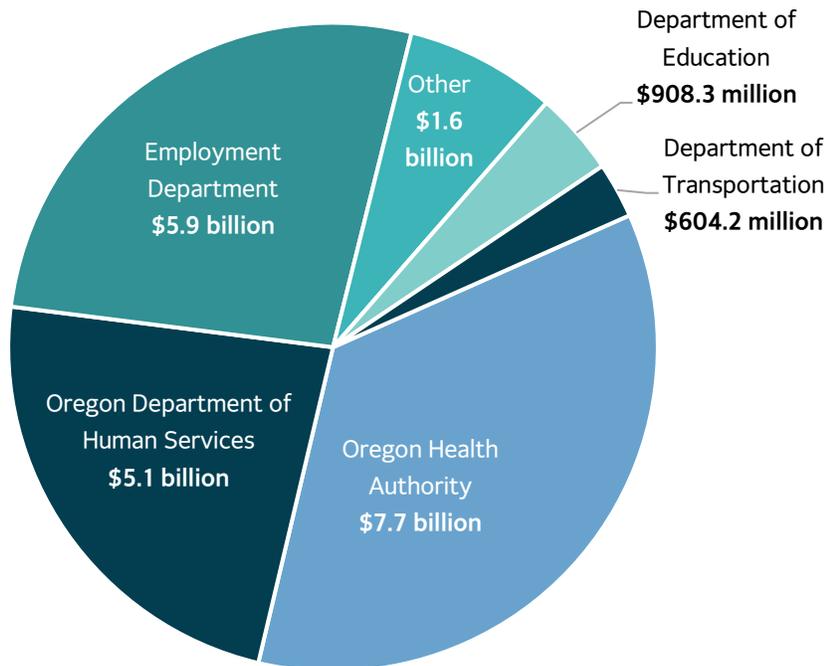
As shown in Figure 5, the audited programs accounted for \$14.1 billion, or 64%, of the \$22 billion spent in fiscal year 2021. Medicaid is the single largest program and accounts for \$9.4 billion in federal funds spent by the state.

Figure 5: We audited 64% of fiscal year 2021 single audit expenditures (in billions)



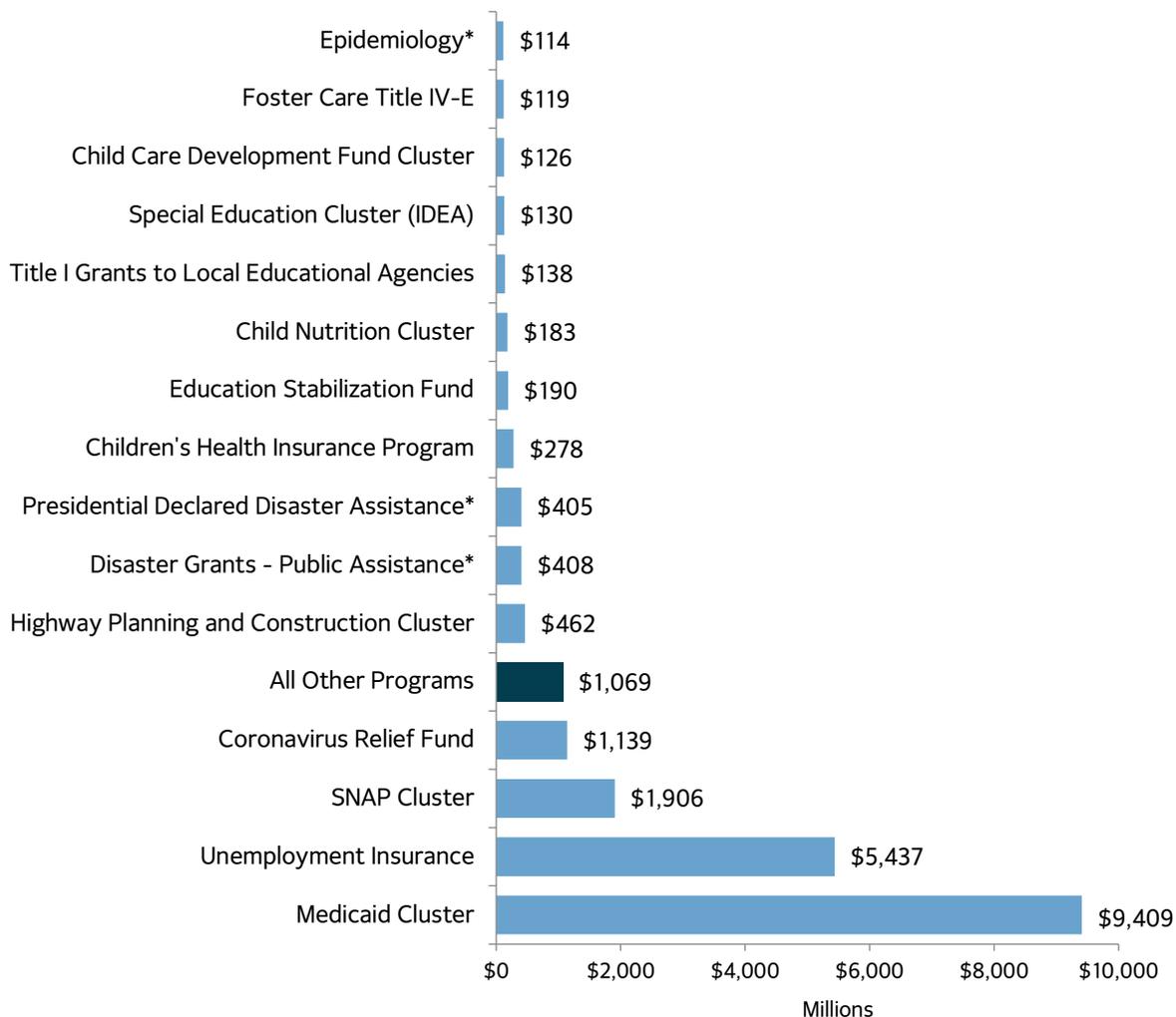
As shown in Figure 6, the Oregon Health Authority and the Oregon Department of Human Services accounted for \$12.8 billion, or 59%, of the state’s federal expenditures. The Medicaid program accounts for 88% of the Oregon Health Authority’s federal expenditures and 51% of the Oregon Department of Human Services’ federal expenditures. The Oregon 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 6: ODHS and OHA account for over half of federal expenditures by state agencies, fiscal year 2021



Of the 408 federal programs administered by the State of Oregon in fiscal year 2021, 15 programs account for 93% 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. The Other category combines 393 federal programs, each with expenditures less than \$100 million.

Figure 7: Medicaid and Unemployment Insurance expenditures far exceed expenditures of other programs, fiscal year 2021 (in millions)

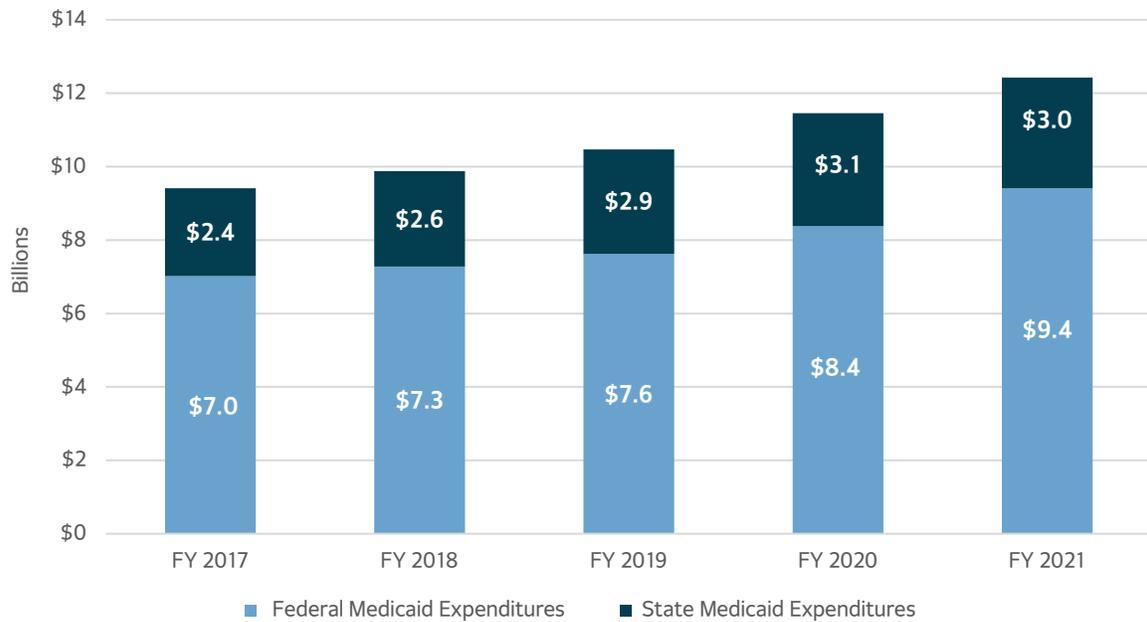


Note: Full titles are: Epidemiology and Laboratory Capacity for Infectious Diseases (ELC), Presidential Declared Disaster Assistance to Individuals and Households - Other Needs, and Disaster Grants - Public Assistance (Presidentially Declared Disasters).

The state's Unemployment Insurance program administered by the Oregon Employment Department continued to see historic funding increases due to the pandemic. Fiscal year 2021 and 2020 expenditures were \$5.4 billion and \$4.7 billion respectively, an increase from a prior three-year average of \$581 million. The significant changes in expenditures were the result of federal legislation to aid in pandemic relief, namely the Emergency Unemployment Insurance Stabilization and Access Act of 2020, the CARES Act of 2020, and the American Rescue Plan Act of 2021 (ARPA).

The Medicaid program provides health insurance coverage to low-income families. The cost to provide this coverage grows every year, but the state's portion decreased this year. Figure 8 shows Oregon's Medicaid costs, both federal and state, for the past five years.

Figure 8: Total Medicaid expenditures increase each year



Fiscal Year 2021 Statewide Single Audit Results

As shown in Figure 9, we audited 18 federal programs administered by the State of Oregon. In addition to Medicaid, which is required to be audited every year, the Coronavirus Relief Fund (CRF) and Education Stabilization Fund (ESF) were considered high-risk and required to be audited this year. We audited six programs at the Oregon Department of Human Services and Oregon Health Authority, as well as programs at the Oregon Department of Education, Department of Administrative Services, Oregon Military Department, Oregon Employment Department, Department of Justice, Oregon Business Development Department, Oregon Department of Fish and Wildlife, Oregon Department of Transportation, and the Oregon Housing and Community Services Department. OMB Uniform Guidance requires these audits.

We reported 29 findings to eight of these agencies with recommendations to improve controls over compliance with the key federal requirements relevant to each program. Similar to our audit of the annual financial report, the type of control finding we report depends on the degree of control weakness and generally falls into one of two categories: a significant deficiency or a material weakness in controls over compliance.

In addition to the findings, we questioned whether Oregon’s spending of \$10,031,362 in federal funds was appropriate under federal program rules. “Questioned costs” is a term OMB requires 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: We audited 18 programs expending \$14.1 billion in federal funds for fiscal year 2021

Federal Program	2021 Findings	Federal Program Expenditures
Medicaid Cluster	5	\$ 9,409,367,918
SNAP Cluster	1	1,906,327,200
Coronavirus Relief Fund	6	1,139,453,069
Presidential Declared Disaster Assistance to Individuals and Households - Other Needs	0	405,485,456
Education Stabilization Fund (ESF)	2	189,949,328
Child Nutrition Cluster	0	183,052,347
Title I Grants to Local Educational Agencies	1	137,634,195
Special Education Cluster (IDEA)	1	130,051,138
Foster Care Title IV-E	2	119,335,446
Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	1	113,619,270
Temporary Assistance for Needy Families (TANF)	3	96,206,083
Child Support Enforcement	0	69,212,834
National Guard Military Operations and Maintenance (O&M) Projects	3	60,834,033
Low-Income Home Energy Assistance	3	41,475,569
Child and Adult Care Food Program		34,153,221
Formula Grants for Rural Areas	0	27,833,154
Fish and Wildlife Cluster	1	25,139,653
Military Construction, National Guard	0	12,340,091
	29	\$ 14,101,470,005

One finding for non-major program (CHIP) not included in this chart. One ESF finding is shared with Title I and counted twice above.

This year, we questioned \$4.8 million in directly identifiable costs and another \$5.2 million in projected errors based on our sample testing. Figure 10 shows the amount of questioned costs we identified by program and state agency. CRF has the largest amount of questioned costs, with \$9 million in known and projected errors. The CRF questioned costs at the Oregon Health Authority, Oregon Housing and Community Services Department, and Oregon Business Development were due to noncompliance with the subrecipient monitoring compliance requirement — namely, ensuring subawards were used for authorized purposes and performing timely monitoring. For CRF at the Department of Administrative Services, the questioned costs were due to not ensuring costs submitted for reimbursement were allowable.

Figure 10: The majority of questioned costs were for the Coronavirus Relief Fund

Federal Program	Federal Program Expenditures	Questioned Costs
Coronavirus Relief Fund		
Oregon Health Authority	\$ 202,635,711	\$ 4,594,450
Department of Administrative Services	449,115,741	3,917,490
Oregon Housing and Community Services Department	97,741,787	420,433
Oregon Business Development Department	147,658,868	86,355
National Guard Military Operations and Maintenance Projects		
Oregon Military Department	60,834,033	661,268
Medicaid		
Oregon Department of Human Services/Oregon Health Authority	9,391,402,870	253,359
Children's Health Insurance Program (CHIP)*		
Oregon Health Authority	271,708,446	77,214
Foster Care		
Oregon Department of Human Services	117,645,358	20,793
Total	\$ 10,738,742,815	\$ 10,031,362

Note: CHIP was not a major program in fiscal year 2021.

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, when we identify programs where a state agency’s internal controls are inadequate to reasonably prevent or detect material noncompliance in a timely manner, we issue a qualified opinion for the program.

For fiscal year 2021, we issued two qualified opinions. We found the Oregon Department of Human Services did not establish adequate internal controls and was not materially compliant with federal requirements for the Temporary Assistance for Needy Families (TANF) program for the fourth consecutive year. We also found the Low-Income Home Energy Assistance Program (LIHEAP) materially noncompliant with Federal Funding Accountability and Transparency Act (FFATA) reporting requirements.

History of Statewide Single Audit Findings

The OMB establishes categories of compliance requirements and the federal awarding agencies determine which categories are key for their programs. Not all requirements apply to every program and some requirements are more complex than others. 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	2017	2018	2019	2020	2021
Allowable Activities and Costs	8+	8+	5+	6+	4+
Cash Management					
Eligibility	2	5+	2	5+	
Equipment	1			1	1
Matching, LOE, Earmarking	2	5	1	2+	4+
Period of Performance	1		1	2	1
Procurement and Suspension and Debarment	2		1		
Reporting	4+	3	3	5	7
Subrecipient Monitoring	6	5	1	2	5+
Special Tests	1	3	3	5+	7
Total findings	27	29	17	28	29

Note: Plus sign indicates multiple compliance requirements appear in one finding, but are only counted once in this display.

The OMB requires auditors to perform follow-up procedures in the following year to determine whether an agency has taken appropriate corrective action to resolve the findings. We followed up on the status of 47 federal compliance findings that remained uncorrected from prior years and found agencies had corrected 21 of them; however, 26 prior year findings will continue into fiscal year 2022 because they remain uncorrected. In addition, 13 of the 18 programs audited for fiscal year 2021 have findings that will require follow-up or full audits in 2022.

Some findings remain uncorrected from one year to the next because agencies do not correct the underlying issues causing 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 agency, program, and nature of the findings that continue to be uncorrected at the end of fiscal year 2021 and have been ongoing for at least four years. When a finding is uncorrected, we are required to continue auditing the requirement until it is resolved. Three programs had ongoing findings corrected in fiscal year 2021: Foster Care, Adoption Assistance, and Vocational Rehabilitation.

The TANF and Medicaid programs both have unresolved audit findings from 2010. Originating in fiscal year 2010, TANF data reports required to be submitted to the federal agency do not accurately reflect case status and activity of the reporting period. Due to implementation of a new system, fixing the data issues had not been prioritized. Since implementation, reporting errors have increased, but agency management is working to ensure proper reporting from the new system. Medicaid's client eligibility finding includes eligibility that was not re-verified, ineligible individuals receiving payments, and missing applications. Progress has been made related to client eligibility, and the number of errors and severity of the issue has lessened over time. Medicaid's provider eligibility finding, originating in 2012, includes providers that were not re-validated or their eligibility determination was not fully supported with required documentation. Progress has been related to provider eligibility with the implementation of updated applications, procedures, and policies.

Figure 12: History of ongoing findings

Agency	Program	Finding Summary	Origination Year	Years Ongoing
ODHS	Temporary Assistance for Needy Families	Accurate reports	2010	12
ODHS/OHA	Medicaid	Client eligibility	2010	12
ODHS/OHA	Medicaid	Provider eligibility	2012	10
ODHS	Child Care and Development Fund	Incorrect copays	2014	8
ODFW	Fish & Wildlife Cluster	Monitoring real property	2017	5

ODHS – Oregon Department of Human Services

OHA – Oregon Health Authority

ODFW – Oregon Department of Fish & Wildlife

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 its 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.

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.

Federal Expenditure: Charges made by a non-Federal entity to a project or program for which a Federal award was received.

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

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 of governmental entities.

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

Liability: Legal debts or obligations between one party and another not yet completed or paid for, defined by previous business transactions, events, sales, exchange of assets or services, or anything that would provide economic benefit at a later date.

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 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.

Report 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.

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