



Steve Bergmann
Division Director

March 27, 2025

Sophorn Cheang, Director
Oregon Business Development Department
775 Summer St., NE, Suite 310
Salem, OR 97301

Dear Director Cheang:

We have completed audit work of a selected federal program at the Oregon Business Development Department (department) for the year ended June 30, 2024.

<u>Assistance Listing Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
14.228	Community Development Block Grants	\$ 25,710,592.43

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. The Office of Management and Budget (OMB) Compliance Supplement identifies internal control and compliance requirements for federal programs. Auditors review and test internal controls over compliance for all federal programs selected for audit and perform specific audit procedures only for those compliance requirements that could have a direct and material effect on the federal program under audit.

We are required to be independent of the department and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. Our audit does not provide a legal determination of the department's compliance with the compliance requirements referred to in Appendix A.

For the year ended June 30, 2024, we determined whether the department substantially complied with the compliance requirements listed in Appendix A as relevant to the federal program under audit.

Responsibilities of Management for Compliance

Department management is responsible for compliance with the requirements referred to in Appendix A, and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the federal program referred to above.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to in Appendix A occurred, whether due to fraud or error, and express an

255 Capitol St NE, Ste 180
Salem, Oregon 97310

opinion on the department's compliance based on our audit work. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, Government Auditing Standards, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirement referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the department's compliance with the federal program.

In performing an audit in accordance with GAAS, Government Auditing Standards, and the Uniform Guidance, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the department's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the department's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of department's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Noncompliance

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and are described below. Our opinion on the federal program is not modified with respect to these matters.

Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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. We consider the deficiencies in internal control over compliance described below to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Audit Findings and Recommendations

Ensure CDBG expenditures are recorded in SFMA under the appropriate grant year

Federal Awarding Agency:	U.S. Department of Housing and Urban Development
Assistance Listing Number and Name:	14.228 Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii; 14.228 Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (COVID-19)
Federal Award Numbers and Years:	B-20-DW-41-0001 (2020, COVID-19), B-20-DC-41-0001 (2020); B-21-DC-41-0001 (2021); B-22-DC-41-0001 (2022); B-23-DC-41-0001 (2023)
Compliance Requirement(s):	Reporting
Type of Finding:	Significant Deficiency; Noncompliance
Prior Year Finding[s]:	N/A
Questioned Costs:	N/A

Criteria: 2 CFR 200.302

The department is required under 2 CFR 200.302 to have a financial management system sufficient to permit the preparation of reports required under the terms and conditions of the CDBG grant; and to track expenditures to establish that funds have been used in accordance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Program staff tracked the obligation of grant funds and used this information to prepare the December 31, 2023 PR28 report. However, because of significant turnover in accounting, there was no review from

accounting staff to ensure the program tracking reconciled to the State's financial management application (SFMA).

We audited the December 31, 2023 PR28 reports filed for awards from 2020 (including a COVID-19 award), 2021, 2022, and 2023. The expenditures reported in HUD's Integrated Disbursement and Information System (IDIS) did not materially agree to expenditures or draws recorded in the state's financial management application (SFMA) for those grants. Variances between cumulative expenditures in SFMA and cumulative expenditures reported ranged between \$1.6 million underreported for 2020 to \$4.5 million overreported for the 2020 COVID award. In total, cumulative expenditures for those grant awards were overreported by \$6.5 million.

The CDBG state grants are required to be expended within eight years. Failure to properly account for expenditures for a specific grant year could result in the loss of funds if not obligated and expended within the period of performance of the grant.

We recommend the agency reconcile SFMA to amounts in IDIS and make adjustments as necessary to ensure CDBG expenditure reports are accurate and agree to accounting records.

Implement controls and submit delinquent FFATA reports

Federal Awarding Agency:	U.S. Department of Housing and Urban Development
Assistance Listing Number and Name:	14.228 Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii; 14.228 Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (COVID-19)
Federal Award Numbers and Years:	B-18-DC-41-0001 (2018); B-19-DC-41-0001 (2019); B-20-DC-41-0001 (2020); B-20-DW-41-0001 (2020, COVID-19); B-21-DC-41-0001 (2021); B-22-DC-41-0001 (2022); B-23-DC-41-0001 (2023)
Compliance Requirement(s):	Reporting
Type of Finding:	Significant Deficiency; Noncompliance
Prior Year Finding[s]:	N/A
Questioned Costs:	N/A

Criteria: 2 CFR 170, Appendix A

The State CDBG and CDBG-CV (COVID) programs are subject to the Federal Funding Accountability and Transparency Act of 2006. The "Transparency Act" requires direct recipients of grants to report first-tier subawards of \$30,000 or more to the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS).

We found nearly \$45 million in subawards made for CDBG projects since 2020 were not reported on the federal reporting system. The department has not prepared FFATA reports since 2020 due to fiscal staff

turnover and no staff formally assigned to perform the task. As a result, Information regarding subawards of CDBG funds was not made available publicly as required.

We recommend the department report all delinquent subaward reports for the CDBG program as required. We further recommend the department develop and implement written procedures and assign staff to ensure subaward reporting occurs timely in the future.

Response to Current Year Findings

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, 2024. Including your responses satisfies the federal requirement that management prepare a Corrective Action Plan covering all reported audit findings. Satisfying the federal requirement in this manner, however, can only be accomplished if the response to each significant deficiency includes the information specified by the federal requirement, and only if the responses are received in time to be included in the audit report. The following information is required for each response:

1. Your agreement or disagreement with the findings. 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 for each audit finding.
3. The anticipated completion date.
4. The contact person(s) responsible for corrective action.

Please provide a response to Sarah Anderson, Audit Manager, by March 31, 2025 and provide Rob Hamilton, State Controller, with a copy of your Corrective Action Plan.

The purpose of this communication is solely for the information and use of management and others within the organization to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. 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 Tracey Gates or Sarah Anderson at tracey.gates@sos.oregon.gov and sarah.a.anderson@sos.oregon.gov.

Sincerely,

Office of the Secretary of State, Audits Division

cc: Imee Anderson, CFO
Brooks Peacock, Chief Audit Executive
Ed Tabor, Infrastructure and Program Services Director
Mollie Croisan, Project & Services Manager

Christine Bailey, Chair, Infrastructure Finance Authority

Berri Leslie, Director and Chief Operating Officer, Department of Administrative Services

Rob Hamilton, State Controller, Department of Administrative Services

APPENDIX A

Compliance Requirement	General Summary of Audit Procedures Performed
Activities Allowed or Unallowed	Determined whether federal awards were expended only for allowable activities.
Allowable Costs/Cost Principles	Determined whether charges to federal awards were for allowable costs and that indirect costs were appropriately allocated.
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.
Special Tests and Provisions	Determined whether the department complied with the additional federal requirements identified in the OMB Compliance Supplement.