



Steve Bergmann
Division Director

March 26, 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.

Assistance Listing Number	Program Name	Audit Amount
21.027	Coronavirus State and Local Fiscal Recovery Fund	\$ 31,989,642

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[s] 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

Tobias Read
Oregon Secretary of State

Michael Kaplan
Deputy Secretary of State

Information (503) 986-2255
sos.oregon.gov/audits

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.

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

Implement controls over reporting

Federal Awarding Agency:	Department of the Treasury
Assistance Listing Number and Name:	21.027 Coronavirus State and Local Fiscal Recovery Fund (COVID-19)
Federal Award Numbers and Years:	SLFRP4454 (COVID-19), 2020
Compliance Requirement(s):	Reporting
Type of Finding:	Significant deficiency
Prior Year Finding:	2023-043
Questioned Costs:	N/A

Criteria: 2 CFR 200.303

Department management is responsible for establishing and maintaining effective internal controls that provide reasonable assurance the department is managing the federal award in compliance with the terms and conditions of the federal award. Recipients of Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) are required to provide quarterly project and expenditure reports to the Department of Administrative Services' Coronavirus Fiscal Relief Team (DAS CFRT), who compiles the statewide report and submits it to the Department of the Treasury.

The quarterly CSLFRF reports require several types of information and updates to be included each quarter, including project descriptions, completion status, and contracted entity details. The report also includes information on obligations and expenditures, provided by the fiscal staff. An Infrastructure Program Specialist works directly with the project management team assigned to the projects and compiles the information into a report spreadsheet. Once compiled, it is transmitted directly to DAS with no additional internal review. The report submitted for infrastructure projects under interagency agreement 6203 and 6252 for the quarter ending June 30, 2024, reported \$46.7 million in cumulative expenditures, but \$48.3 million were recorded in accounting records, resulting in an under-reporting of expenditures by \$1.6 million, or 3.4%.

CSLFRF awards must be used for costs incurred (obligated) by December 31, 2024, and expended for those incurred costs by December 31, 2026. Any funds not expended must be returned to the Department of the Treasury at the end of the grant. Because the department's reporting process did not include a review

by fiscal staff prior to submission to DAS to ensure the report included accurate expenditure and obligation information, the department risks the potential loss of CSLFRF funds.

We recommend the department implement a review by fiscal staff of expenditure and obligation amounts on CSLFRF quarterly reports before submission to DAS CFRT to ensure the reports agree to the accounting records.

Assign responsibility to ensure review of subrecipient audit reports

Federal Awarding Agency:	Department of the Treasury
Assistance Listing Number and Name:	21.027 Coronavirus State and Local Fiscal Recovery Fund (COVID-19)
Federal Award Numbers and Years:	SLFRP4454 (COVID-19), 2020
Compliance Requirement(s):	Subrecipient Monitoring
Type of Finding:	Significant deficiency, Noncompliance
Prior Year Finding:	N/A
Questioned Costs:	N/A

Criteria: 2 CFR 200.332(e)(2), (e)(3), (g), (h), (i); 2 CFR 200.521(a), (c), (d)

Federal regulations require recipients of federal awards ensure their subrecipients expending \$750,000 or more during fiscal years prior to October 1, 2024, are audited according to requirements in 2 CFR 200 Subpart F, and then to perform certain actions dependent upon audit results. To satisfy this requirement, the Department of Administrative Services assigns Oregon state departments to be audit agencies. An audit agency is to:

- Ensure the subrecipient received an audit or consider sanctions per 2 CFR 200.339.
- Ensure the subrecipient takes corrective action on all findings negatively affecting subawards.
- Issue a management decision within six months of the Federal Audit Clearinghouse's acceptance of the subrecipient's audit report if there were findings pertaining to the agency's subawards.
- Contact other state agencies that have also passed through funds to the subrecipients (contributing agencies), alerting them to findings related to their programs.

In fiscal year 2024, DAS assigned OBDD to review 24 of the state's 369 subrecipients' audits, receiving a total of \$42.3 million in pass-through funding from 11 state agencies. OBDD did not review any of these entities due to staff turnover. We reviewed two of these subrecipients and found neither had audit findings. This does not preclude the remaining 22 subrecipients from having audit findings requiring communication

We recommend department management complete its review of subrecipient audits as soon as possible to ensure its monitoring procedures are sufficient, and to inform contributing agencies of any deficiencies that may affect their programs.

Prior Year Finding

In the prior fiscal year, we reported noncompliance and internal control findings in the Statewide Single Audit Report related to the Coronavirus State and Local Fiscal Recovery Fund. For the fiscal year ended June 30, 2023; see Secretary of State audit report number 2024-14.

During fiscal year 2024, the department corrected one finding (2023-004) and made progress on another (2023-043). The uncorrected findings will be reported in the Statewide Single Audit Report for the fiscal year-ended June 30, 2024 with a status of partially corrected.

Prior Year Finding No.	Finding Title	Status
2023-004	Ensure federal expenditures are appropriately classified as direct or pass-through on the SEFA	Corrected
2023-043	Management should implement accounting review of quarterly reports before submitting to DAS	Partially corrected

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 finding. If you do not agree with an audit finding or believe corrective action is not required, include in your response an explanation and specific reasons for your position.
2. The corrective action planned 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 by Monday, March 31, 2025, and provide Rob Hamilton, State Controller, 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.
Procurement and Suspension and Debarment	Determined whether procurements were made in compliance with state procurement requirements and verified that contractors were not suspended, debarred, or otherwise excluded from receiving federal funds.
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.
Subrecipient Monitoring	Determined whether the state agency monitored subrecipient activities to provide reasonable assurance that the subrecipient administered federal awards in compliance with federal requirements.